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GRAY DAVIS, GOVERNOR, STATE OF CALIFORNIA

May REVISION

GOVERNOR'S BUDGET

The May Revision to Governor Davis' January Budget provides updated economic and revenue forecasts, as well as the latest caseload, enrollment, and population information for programs in the education, public safety, and health and human services areas.

At the heart of the May Revision are $1.2 billion in new funding for public education, a $1 billion investment in the state's infrastructure, and an additional $570 million for a prudent reserve.

Revenues are forecast to be above the levels forecast in the January budget by $1.634 billion for the 1998-99 fiscal year, and $2.713 billion for 1999-00, for a combined increase of $4.347 billion.

Key features of the May Revision include:

EDUCATION

- ★ A $100 million school safety initiative to fund new counselors for every high school in the state, school safety infrastructure grants, and law enforcement review of school safety plans.
- ★ $144 million to ensure school districts provide new textbooks in three core subjects.
- ★ $143.7 million to fully fund deferred maintenance.
- ★ $35 million to expand after school programs at middle schools and elementary schools.
- ★ $23 million for preschool expansion, the first increment toward the Governor's goal of serving 100,000 children in preschool by 2000-01.
- ★ $43 million to reduce student fees at the University of California and California State University to 10 percent below 1997-98 levels, and $12.9 million for Community Colleges for a one dollar reduction in the per unit fee.

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OVERVIEW

Infrastructure

- ★ A $425 million augmentation to the State Infrastructure Bank.
- ★ $355 million to build one prison and plan for another.
- ★ $137 million to fund deferred maintenance for California's state parks.
- ★ $75 million for additional trains for intercity rail lines and for Bay Area ferry services.

Public Safety

- ★ $61 million to the Office of Criminal Justice Planning to provide onetime local law enforcement grants.
- ★ $6.4 million to the Department of Justice to implement an SKS rifle buy-back program, to implement an automated palm print system, and to increase enforcement of antitrust and charitable trust laws.
- ★ $35.7 million to allow the Department of Corrections to reimburse counties for detaining parole violators in local jails.
- ★ $6.9 million for enhanced training for correctional officers assigned to armed posts, and to purchase 60 water restraint systems.
- ★ $75 million in federal funds to be allocated by the Board of Control to local governments for adult and juvenile detention facilities.
- ★ $3.5 million to continue the Rural Crime Prevention Program and to extend the program to three additional counties.
- ★ $300,000 to provide administrative support for the coordination of methamphetamine abatement efforts in the Central Valley.
- ★ $2.3 million for the Office of Criminal Justice Planning to establish a statewide Elder Abuse Vertical Prosecution Program.

Environment

- ★ $7.6 million to increase enforcement of conservation laws in the North Coast, pursuant to the Headwaters Forest purchase agreement.
- ★ $2.6 million to assist restoration of salmon and steelhead trout populations in Coastal watersheds.
- ★ $2.1 million for the "Trees for the Millennium" Initiative, to encourage the planting of trees in urban areas.
- ★ $5.7 million for the Southern California Wetlands Clearinghouse Program, to restore the region's 41 remaining coastal wetlands.
- ★ $80,000 for the California Coastal Commission to process easements to provide access to the Coast.

Health Care

- ★ A $110 million General Fund set aside to be used for expansion of the Healthy Families Program, rate increases for Medi-Cal managed care providers, nursing home industry reforms, and wage increases for providers of In-Home Supportive Services.

Tax Relief

- ★ Elimination of the first two years of the minimum franchise tax for new corporations, reducing the General Fund by $28 million.
- ★ Permanent exclusion of 50 percent of capital gains on small business stock held for over 5 years.
- ★ Funds set aside to backfill the loss of Vehicle License Fee revenue to local governments should the 35 percent reduction in the fees be triggered in 2000-01.

Reserve

- ★ $570 million for a prudent reserve of $985 million, and $300 million set aside for state employee compensation and litigation settlements.

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THE ECONOMY

Economic growth in both the U.S. and California has significantly exceeded expectations over the last six months, and as a result the outlook for 1999 has strengthened considerably from the Governor's Budget forecast. The Budget forecast—completed within weeks of the near-meltdown in world financial markets which resulted from Russia's default—had assumed an imminent deceleration in the rate of economic growth, at both the state and national levels. The May Revision still contemplates moderating growth, but the major effects of the slowdown are postponed until 2000 and 2001.

Economic forecast revisions are concentrated in 1999. Growth in 2000 is virtually the same as the Governor's Budget assumptions. (See Figure ECON-1.) Key changes in the 1999 outlook include:

★ U.S. real gross domestic product (GDP) is now expected to grow 3.6 percent this year, compared to the 1.9 percent rise included in the original Budget.

★ Stock prices—a major determinate of capital gains incomes in the personal income tax—have also far exceeded expectations, reaching new record highs in April and May.

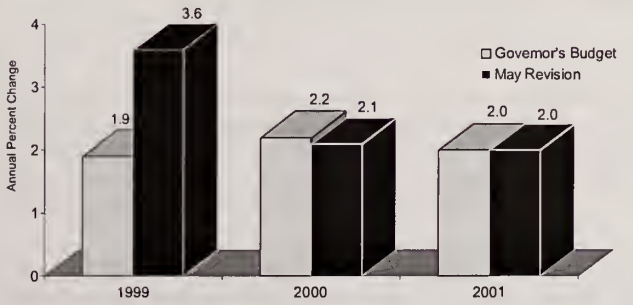
★ California 1999 job growth is now forecast at 3.3 percent, compared to 2.1 percent in the Governor's Budget.

★ California personal income growth is increased to 6.6 percent this year, from the earlier forecast of a 5.1 percent gain.

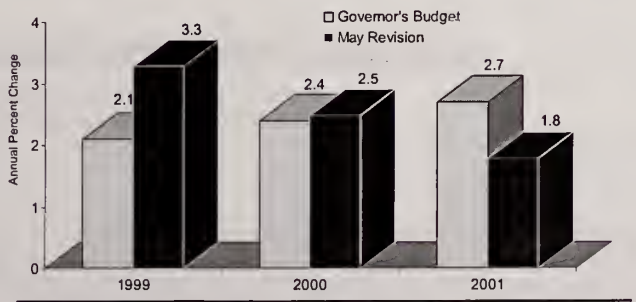
Changes Since the January Budget. When the Governor's Budget forecast was prepared last November, it was widely believed that U.S. economic growth was slowing. At that time the recession in Asia, and virtual paralysis in world credit markets following Russia's default on its foreign debt, appeared to have the

FIGURE ECON-1

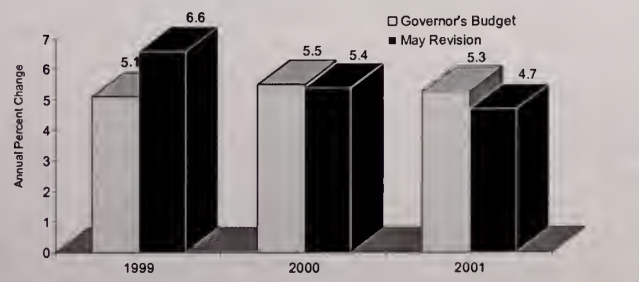
U.S. GDP Annual Growth Rates



California Nonfarm Employment Annual Growth

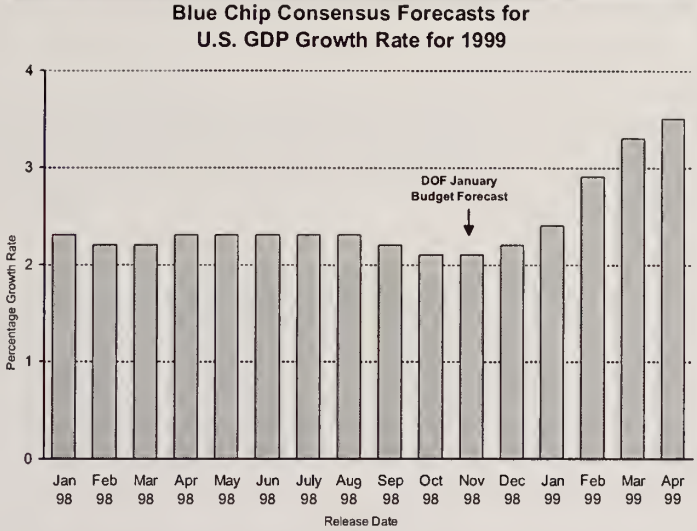


California Personal Income Annual Growth



potential to significantly slow the pace of economic growth. The January Budget forecast was in line with the broad consensus of forecasts made at that time. For example, the November 10, 1998, Blue Chip Consensus poll of 50 economists nationwide revealed an average forecast of 2.1 percent GDP growth in 1999, fractionally above the Budget's 1.9 percent projection.

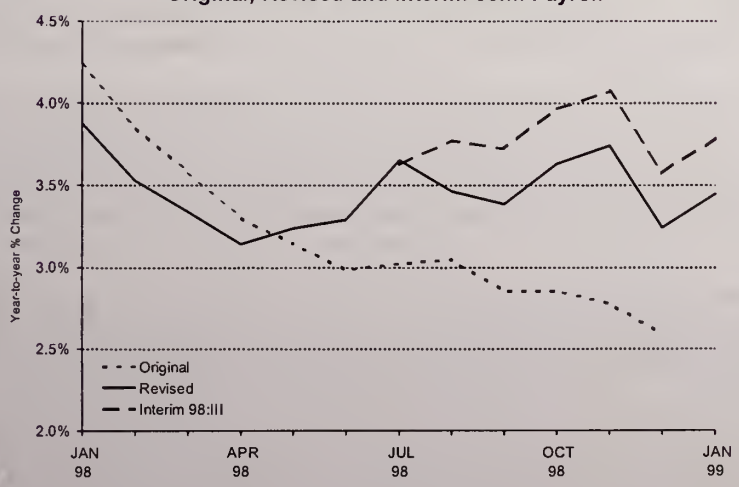
FIGURE ECON-2



The November Blue Chip survey showed average estimates of 2.5 percent growth in the fourth quarter of 1998 and 1.8 percent in the first quarter of 1999. In fact, the economy boomed at a 6 percent annual rate in the closing months of last year, followed by a 4.5 percent leap in early 1999. As evidence of the surging economy poured in, the Blue Chip Consensus 1999 GDP forecast jumped to 3.5 percent in April, from November's 2.1 percent reading. (Figure ECON-2)

California Revised. California is clearly benefiting from the strong national economy, but in addition, annual revisions to the state's employment figures— released in February—revealed a much stronger pattern of job growth in the second half of 1998 than was originally reported. At the time the Budget forecast was prepared, the employment data signaled a very clear slowing in job growth throughout 1998.

FIGURE ECON-3



Instead, the revised data completely eliminate the 1998 slowdown, and now indicate that job growth actually accelerated in second half of last year. Moreover, payroll tax reports for the third quarter of 1998—which were not included in the annual revision—added a further 45,000 jobs to the upwardly revised official employment data. (Figure ECON-3.)

Very strong personal income tax wage withholding receipts over the last several months—no doubt buoyed in part by bonus and stock option activity—also suggest a more vigorous pace of job growth than currently reflected in the monthly labor market reports.

The Forecast

The U.S. Outlook. Despite the recent unexpected surge in U.S. GDP, sooner or later growth will return to a more sustainable path. Consumer spending and fixed investment—both business and housing—have been the major contributors to the recent uptick in growth. To some extent, growth in the last two quarters was boosted by unusually mild autumn and winter weather over most of the nation. Construction and consumer spending both benefited from the mild weather, but this only means that seasonal gains in the spring and summer quarters will likely be lower than normal, thus subtracting from growth.

Consumer spending has exceeded after-tax incomes in each of the last two quarters. The booming stock market is almost certainly supporting this "dissaving" behavior, as consumers feel less compelled to add to savings—and may even draw down balances to some extent—when the value of existing assets is climbing so rapidly. The sustainability of recent outsized gains in household spending will depend importantly on the continuation of the unprecedented stock market boom, which pushed the Dow Jones Industrial Average up 20 percent in the first four months of 1999—an annualized gain of over 60 percent.

Underlying household income growth, meanwhile, will almost certainly be constrained by the demographics of the labor markets. With the working-age population increasing by scarcely 1 percent a year, job growth in excess of 2 percent annually is clearly not sustainable. The nation's unemployment rate, at 4.2 percent in March, is already the lowest peacetime rate since measurement began in 1946. Some further decline in unemployment is likely, but the drop cannot be sufficient to overcome the underlying demographic forces of a slowly growing adult population.

Outside California, new home construction is also running far ahead of underlying demographic demand—the same slowly growing adult population that affects the labor markets. Despite favorable mortgage interest rates, further gains in new housing will be increasingly difficult to achieve.

Growth in business investment spending has been dominated by purchases of computers and related equipment. In most areas of the country—again, parts of California are notable exceptions—demand for nonresidential buildings has begun to wane. Indeed, in the first quarter, nonresidential construction actually declined by a small fraction. Gains in computer purchases reflect sharply lower prices and investments associated with final preparations to correct possible Year 2000 problems. It is expected that this spending will taper off as the year unfolds.

The foreign sector continues to subtract from U.S. economic growth, and the nation's trade deficit is almost certain to widen further over the next year or more. While there are some positive signs of stabilization and, in some cases, even recovery in overseas economies, the strong dollar continues to favor imports over exports.

These fundamental forces all point to a moderation of economic growth in the near future. Following this year's 3.6 percent advance—the fourth in a row above 3 percent—the forecast is for slowing to about 2 percent in 2000 and 2001. Highlights of the U.S. forecast are in Figure ECON-4.

FIGURE ECON-4

Selected U.S. Economic Indicators

	1998	Forecast 1999	2000
Real gross domestic product, (1992 dollar) (Percent change)	3.9	3.6	2.1
Personal consumption expenditures	4.9	3.9	2.7
Gross private domestic investment	10.3	8.3	0.0
Government purchases of goods and services	0.9	2.7	1.9
GDP deflator (1992=100) (Percent change)	1.0	1.0	1.5
GDP, (Current dollar) (Percent change)	4.9	4.7	3.6
Federal funds rate (Percent)	5.35	4.80	5.00
Personal income (Percent change)	5.0	4.9	4.7
Corporate profits before taxes (Percent change)	-2.3	-0.3	-3.4
Nonfarm w age and salary employment (Millions)	125.8	128.5	130.8
(Percent change)	2.6	2.1	1.8
Unemployment rate (Percent)	4.5	4.3	4.4
Housing starts (Millions)	1.62	1.63	1.51
(Percent change)	10.0	0.2	-7.3
New car sales (Millions)	8.2	8.0	7.8
(Percent change)	0.2	-2.6	-2.1
Consumer price index (1982-84=100)	163.1	166.4	170.5
(Percent change)	1.6	2.0	2.4

Forecast based on data available as of April 19, 1999. Percent changes calculated from unrounded data.

The California Outlook. A number of cross currents are affecting the California economy in 1999. Several key export industries—electronics and aerospace manufacturing, agriculture, apparel manufacturing, and motion picture production— are struggling, due in part to persistent weakness in foreign demand and accompanying downward pressure on prices. On the plus side, demand for high technology services—computer software, Internet applications, biotechnology and other engineering and management consulting—remains vigorous.

In addition, construction activity continues to surge, with an upturn in home building adding to an already healthy picture in the nonresidential segment. The housing recovery, in turn, is boosting activity in several related manufacturing industries such as lumber, stone-clay-glass, fabricated metals, and furniture. The strong market for both new and existing homes is also boosting activity in the financial services industries, although employment in depository institutions (banks and thrifts) continues to decline in the wake of major mergers and consolidations in that segment.

With the mix of job growth slanted toward high wage technology services, and given the popularity of stock options throughout the technology sector, wage growth appears far more robust than the employment data would suggest. With job growth projected at 3.3 percent this year, wages and salaries are forecast to rise over 9 percent, with total incomes advancing by 6.6 percent. This view is based in part on extremely strong personal income tax wage withholding receipts, which jumped over 14 percent in the first quarter compared to the similar 1998 period.

Beyond 1999, the signals are mixed. A turnaround in overseas economies should help prospects in several export-oriented manufacturing industries. At the same time, once the Year 2000 computer problems are addressed, demand for computer services could moderate. The expected slowing of the national economy— still California's biggest "export" market—will also dampen growth next year.

Job growth next year is expected to ease to 2.5 percent from 3.3 percent in 1999. Income gains are projected at 5.4 percent, compared to 6.6 percent this year. Construction activity should continue to advance, although the rate of increase will also slow from this year's anticipated pace. The California forecast is summarized in Figure ECON-5.

FIGURE ECON-5

Selected California Economic Indicators

			Forecast			
	1998	Percent Change	1999	Percent Change	2000	Percent Change
Personal income ($ bill.)	$902.0	6.6%	$961.6	6.6%	$1,013.4	5.4%
Nonfarm W&S employment (thous.)	13,603	3.6%	14,046	3.3%	14,393	2.5%
Mining	25	-12.5%	24	-6.7%	23	-4.5%
Construction	607	10.3%	670	10.4%	715	6.6%
Manufacturing	1,957	2.2%	1,965	0.4%	1,972	0.4%
High Technology	535	2.8%	524	-2.2%	514	-1.8%
Transportation/utilities	695	4.7%	715	2.8%	720	0.8%
Whlse & retail trade	3,128	2.6%	3,204	2.4%	3,275	2.2%
Finance group	800	5.5%	820	2.5%	828	1.0%
Services	4,226	5.0%	4,428	4.8%	4,592	3.7%
Government	2,164	1.1%	2,220	2.6%	2,269	2.2%
Unemployment rate	5.9%	--	5.6%	--	5.4%	--
Housing permits (thous.)	125.0	12.8%	160.0	27.3%	174.0	9.0%
Consumer price index	163.7	2.0%	168.3	2.8%	172.9	2.7%

Forecast based on data available as of April 19, 1999. Percent changes calculated from unrounded data.

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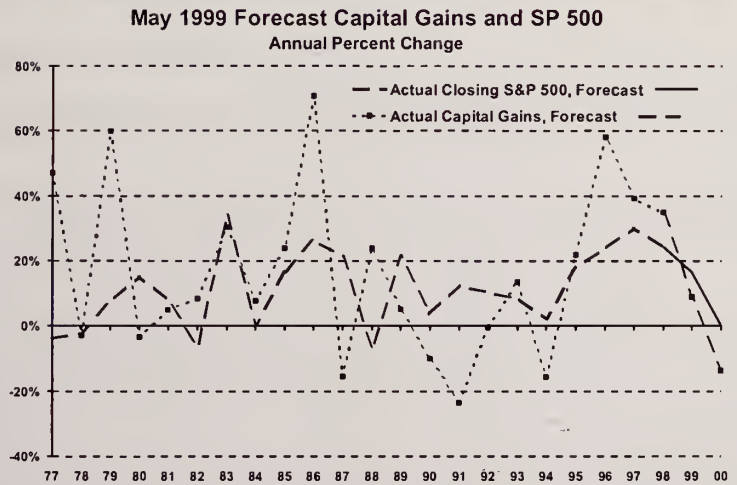
Revenue Estimates

Revenues are projected to be above the 1999-00 Governor's Budget forecast by $1.634 billion in 1998-99 and $2.713 billion for 1999-00, for a combined increase of $4.347 billion.

As noted in the previous discussion, economic growth has been substantially stronger than was anticipated by the economic consensus at the time the Governor's Budget was prepared. Similarly, stock prices have exceeded virtually all projections—boosting the realization of capital gains and stock option activity. Capital gains are estimated to have increased in 1998 to a level more than three and one-half times the level just four years earlier. Since capital gains account for over 16 percent of personal income tax revenues, any swings in this volatile revenue source cause significant revenue changes. The fall meltdown in stocks, which pulled market growth down at the time the Budget was prepared, does not appear to have significantly increased net losses to investors. The chart below shows that although the pattern of growth in capital gains does not always track closely with that in the stock market, gains in 1998 appear to have moved in line with the market close.

FIGURE REV-1


May 1999 Forecast Capital Gains and SP 500
Annual Percent Change
Actual Closing S&P 500, Forecast
Actual Capital Gains, Forecast
80%
60%
40%
20%
0%
-20%
-40%
77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00

Personal Income Tax

The personal income tax forecast has been increased by $1.976 billion in 1998-99 and $2.760 billion in 1999-00, for a combined increase of $4.736 billion.

Through April, personal income tax receipts are $1.971 billion, or 8 percent, above the 1999-00 Governor's Budget forecast. The stock market is believed to be the key factor driving this growth, both in capital gains realizations as well as wage growth resulting from increased stock option activity.

Although the detail for the 1998 tax year is not known, based on cash receipts for the year, it appears that capital gains realizations increased by 35 percent from the prior year. Capital gains are expected to increase by 9 percent during 1999 and decline by 13.8 percent during 2000.

The Governor is proposing permanent extension of the 50 percent exclusion of gains from the sale of small business stock. Under current law this exclusion only applies to sales made prior to January 1, 1999.

REVENUE ESTIMATES

SALES AND USE TAX

The sales and use tax forecast has been increased by $240 million in 1998-99 and $280 million for 1999-00, for a combined gain of $520 million.

Through April, sales tax receipts are $168 million, or 1.1 percent, above the 1999-00 Governor's Budget forecast. The stock market "wealth factor" is believed to be contributing to the current strength in this tax, as well as the impact of increased personal income tax refunds as a result of last year's tax reduction efforts at both the state and federal levels—in particular, increases in the dependent exemption credits. Taxable sales are forecast to increase by 7.6 percent during 1999, following only 5.3 percent growth for 1998.

BANK AND CORPORATION TAX

The bank and corporation tax forecast has been decreased by $404 million in 1998-99 and $539 million in 1999-00, for a combined decrease of $943 million.

Through April, bank and corporation tax receipts are $270 million, or 5.9 percent, below the 1999-00 Governor's Budget forecast. This shortfall is first evidenced by weakness in the first two estimated payments for 1999 calendar-year corporations, which were $319 million below forecast, and was offset to some extent by final payment and refund receipts for the prior year.

The forecast reflects the Governor's proposal to eliminate the minimum franchise tax for the first two years for new businesses that incorporate after January 1, 2000.

FIGURE REV-2

General Fund Revenue Forecast
Reconciliation with the Governor's Budget Forecast

(Dollars in millions)

	Governor's Budget	May Revision	Change Between Forecasts	
Fiscal 97-98				
Personal Income Tax	$27,925	$27,925	$0	0.0%
Sales & Use Tax	17,583	17,583	0	0.0%
Bank & Corporation Tax	5,837	5,837	0	0.0%
Insurance Tax	1,221	1,221	0	0.0%
Other Revenues	2,272	2,272	0	0.0%
Transfers	135	135	0	0.0%
Total	**$54,973**	**$54,973**	**$0**	**0.0%**
Fiscal 98-99				
Personal Income Tax	$28,526	$30,502	$1,976	6.9%
Sales & Use Tax	18,620	18,860	240	1.3%
Bank & Corporation Tax	5,926	5,522	-404	-6.8%
Insurance Tax	1,238	1,252	14	1.1%
Other Revenues	2,100	2,074	-26	-1.2%
Transfers	-117	-283	-166	141.9%
Total	**$56,293**	**$57,927**	**$1,634**	**2.9%**
Change from Fiscal 97-98	$1,320	$2,954		
% Change from Fiscal 97-98	2.4%	5.4%		
Fiscal 99-00				
Personal Income Tax	$30,175	$32,935	$2,760	9.1%
Sales & Use Tax	19,680	19,960	280	1.4%
Bank & Corporation Tax	6,295	5,756	-539	-8.6%
Insurance Tax	1,232	1,246	14	1.1%
Other Revenues	2,783	2,850	67	2.4%
Transfers	107	238	131	122.4%
Total	**$60,272**	**$62,985**	**$2,713**	**4.5%**
Change from Fiscal 98-99	$3,979	$5,058		
% Change from Fiscal 98-99	7.1%	8.7%		

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Tax Relief

Minimum Franchise Tax Reduction

Current state law requires that all corporations pay at least a minimum franchise tax for the privilege of doing business in California. This minimum tax is $800 for most corporations, with reduced amounts beginning on January 1, 1999, for new corporations with gross receipts under $1 million. For those entities, the tax is $300 for their first year of incorporation and $500 for their second year.

Beginning January 1, 2000, the Governor proposes to eliminate the minimum tax for all new corporations that is paid at the time of initial incorporation, as well as the payment of the minimum franchise tax for their second year of incorporation. This proposal is estimated to reduce General Fund revenues by $28 million in 1999-00, increasing to approximately $60 million annually thereafter.

Small Business Stock Gains Exclusion

Current federal and state laws allow 50 percent of the gains from the sale or exchange of qualified small business stock held for over five years to be excluded from gross income. The exclusion under current state law requires that the issuing corporation meet specified active business requirements within the state and the stock must be purchased before January 1, 1999.

The Governor proposes to make this exclusion permanent, thereby conforming to the federal law provision and extending this relief to qualified stock that is purchased on or after January 1, 1999. Upon full implementation, this tax relief provision is estimated to reduce General Fund revenues in the range of $50 million annually. However, due to the requirement that the stock be held for at least five years, this reduction will not impact revenues until after the 2003 tax year.

Set Aside for Vehicle License Fee Reduction

Beginning January 1, 1999, a permanent reduction of 25 percent of the amount of vehicle license fees owed became operative. This can increase to four higher levels at various future dates, if General Fund revenue projections exceed the Department of Finance's May 1998 revenue projections.

A potential exists that the next level of the vehicle license fee reduction will become operative for the 2001 tax year, increasing from 25 percent to 35 percent. The Governor proposes to set aside $248 million, which is the estimated impact of that increase in the 2000-01 fiscal year, as a special reserve for 1999-00. This set-aside will assure that funds are available in 2000-01 to backfill the loss of vehicle license fee revenue to local governments, in the event the 35 percent reduction is triggered.

Current Law Tax Provisions

Existing state law affords substantial tax relief to both corporate and individual taxpayers. Based on the Department of Finance *1998-99 Tax Expenditure Report,* these provisions are estimated to reduce state revenues by $18 billion annually—including $14 billion in personal income tax relief, $3 billion in corporate tax relief, and $1 billion in sales tax relief.

Key areas of tax reduction for individual taxpayers include deductions for home mortgage interest and charitable contributions, employer contributions to health plans, and capital gains on the sale of a principal residence. On the corporate side, key areas of relief include a reduced rate of taxation for all corporations, special rate provisions for subchapter S corporations, carryover of net operating losses, and the manufacturing investment and research and development credits. These recently enacted corporate tax provisions along with the 25% vehicle license fee reduction enacted in 1998, will result in General Fund revenue losses of approximately $4 billion in the 1999-00 fiscal year.

The Governor's Budget assumes the continuation of all the special provisions for individual and corporate taxpayers described above.

EDUCATION

PROPOSITION 98 GUARANTEE

1998-99 $241.5 million
1999-00 $717.5 million

The May Revision includes a two-year increase of $1.2 billion over the January Budget. The May Revision proposes total Proposition 98 spending of $37.9 billion in 1999-00, which includes a $100 million General Fund augmentation over the minimum guarantee level. This augmentation will become a permanent part of the ongoing Proposition 98 base amount.

The May Revision reflects both significant changes to state revenue and personal income estimates, as well as K-12 average daily attendance (ADA). There is no change in the local property tax growth estimate in 1998-99 (4.9 percent); however, there is a moderate increase in 1999-00 (from 6.0 percent to 6.5 percent). These revised estimates and the $100 million General Fund augmentation combine to increase the State's General Fund share of the Proposition 98 guarantee by a two-year total of $959 million, up by $241.5 million in 1998-99 and $717.5 million in 1999-00 (see Figure K12-1). The revised K-12 dollars per pupil increased by $46 above the January estimate to $5,990, an increase of 5 percent above the $5,709 in 1998-99 (see Figure K12-2).

FIGURE K12-1

Proposition 98
January vs. May Revision
(Dollars in Thousands)

1998-99	January Proposal	May Revision	Change
General Fund	$24,567,286	$24,808,785	$241,499
Local Revenue	10,700,916	10,780,009	79,093
Total Guarantee	$35,268,202	$35,588,794	$320,592

1999-00	January Proposal	May Revision	Change
General Fund	$25,754,494	$26,472,032	$717,538
Local Revenue	11,254,793	11,433,109	178,316
Total Guarantee	$37,009,287	$37,905,141	$895,854

K-12 EDUCATION

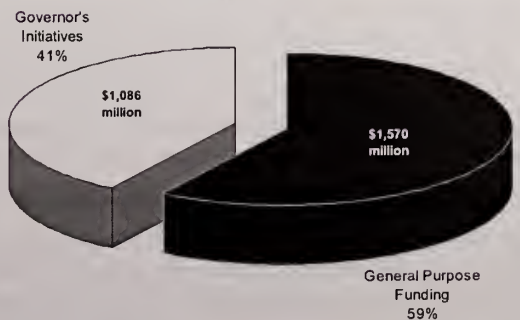
1998-99 $241.2 million
1999-00 $731.5 million

The May Revision provides $972.7 million in additional General Fund resources for K-12 education above the January level. Total General Fund allocations of $26.5 billion for K-12 education now represent 41.9 percent of the total General Fund budget.

The total amount of new K-12 Proposition 98 resources in 1999-00 over the 1998-99 Budget Act level is $2.7 billion, which includes additional General Fund, increased local property tax revenues, and one-time funding available in the

FIGURE K12-2

What the K-12 Proposition 98 Increase Buys in 1999-00
(Total = $2,656 Million)



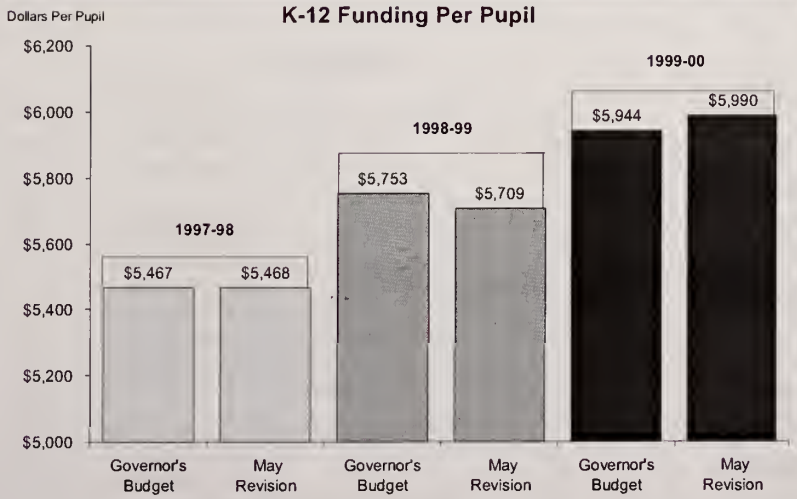
Proposition 98 Reversion Account. As shown in Figure K12-3, 59 percent of the Proposition 98 increase is devoted to additional general purpose funding for school districts and 41 percent is spent on the Governor's Initiatives.

Current Year

School district and county office of education revenue limit appropriations reflect an increase of $241.2 million since the Governor's Budget, resulting from increased estimates of ADA offset by slightly increased local property tax revenues. The May Revision includes estimated K-12 ADA growth for 1998-99 of 3.79 percent, up significantly from the 1.99 percent in the Governor's Budget (about 85,000 ADA higher than the January estimate). This results in an ongoing increase of $325.6 million. In addition, the higher ADA also increases funding for special education programs by $40.5 million in the current year. Further, funding of $40.6 million is included for prior year state mandate claims. Funding for special education and state mandates is allocated from one-time Proposition 98 resources.

Budget Year

FIGURE K12-3



For 1999-00, State General Fund support of K-12 education will increase by $731.5 million which results from the General Fund augmentation to the calculated Proposition 98 minimum level ($100 million), changes in property tax growth (-$131 million), statutory growth ($401.6 million), and the combined effect on the Proposition 98 guarantee of revised estimates of state revenues, personal income, and population ($360.9 million). The revised level of spending reflects a change in the statutory cost-of-living adjustment (COLA) from 1.83 percent to 1.41 percent. The May Revision also includes $5.5 million to provide a 1.41 percent discretionary COLA to three education programs that did not receive a COLA in the Governor's Budget in January. These programs include the Staff Development Day Buy-Out Program, Community Day Schools, and 9th Grade Class Size Reduction. The net change of the above adjustments results in a total of $859.4 million in available resources.

In the budget year, the revised ADA growth rate is up slightly, from 1.40 percent in January to 1.53 percent. Including continuation of the current year increase, there is a total budget year adjustment of $411.7 million for growth in ADA. The total number of ADA is estimated to be 5,536,960 in 1998-99 and 5,621,518 in 1999-00.

The Governor's Education Initiatives included in both the Governor's Budget and the May Revision are identified in Figure K12-4. New education initiatives included in the 1999-00 Budget total approximately $1.1 billion. As Figure K12-4 indicates, the May Revision contains the following significant changes for 1999-00:

School Safety

★ **Conflict Resolution Counselors-High School.** In an effort to assist pupils in developing the skills necessary to address and resolve conflict in a conciliatory manner and encourage a safer learning environment in high schools, the May Revision contains $42.5 million to provide funding to every

FIGURE K12-4

Governor's Education Iniatives
(Dollars in Millions)

GOVERNOR'S BUDGET/LEGISLATION	
Reading Improvement	
Intensive Reading Instruction for K-4 students	$ 75.0
Classroom Library Purchases for K-4	25.0
Public campaign/Gov Reading Awards	6.0
Secondary Schools Reading Instruction	5.0
English Language Learners	74.0
Preschool Reading/Development Standards	1.0
Teacher Quality	
Reading Professional Development Institutes	12.0
Credentialing Fee Buy-out	1.5
Governor's Teacher Scholars	0.5
Governor's Principal Leadership Academy	0.5
Paraprofessional Teacher Preparation	10.0
Teacher Peer Review & Assistance	125.0
Less Redirection from Mentor Teacher	(83.2)
Accountability/Performance	
High School Exit Exam	2.0
Low Performing Schools/Accountability	96.1
Governor's Performance Awards for Schools	96.1
California Community Colleges	
Teacher/Reading Development Partnerships	10.0
High School Report Cards	10.6
High School Middle Colleges	1.8
Total	**$ 468.9**

MAY REVISION	
School Safety	
Conflict Resolution Counselors-High School	$ 42.5
Review of School Safety Plans	15.0
School Safety Infrastructure Grants	42.5
Instructional Quality	
Teacher Performance Bonuses	100.0
Instructional Materials: 3 core textbooks	144.0
Parent Involvement	40.0
College Preparation/Testing	5.0
Double Funding for Arts Education	3.0
Digital High School Assistance	1.0
Add 20 Partnership Academies	1.2
Funding Equity and Accountability	
Deferred Maintenance	143.7
Fiscal Accountability	3.0
School Business Office Staff Development	0.5
Preschool and Child Care	
Expand Pre-School to 100,000 in 2 years	23.0
Child Care Expansion for Working Families	13.9
After School Program--Middle School	25.0
After School Program--Elementary School	10.0
Total	**$ 613.3**

Total Governor's Education Initiatives
$1.1 billion

high school in the State for conflict resolution counselors and certificated personnel trained in conflict resolution, peer counseling, or other programs developed to reduce the incidence of violence in the schools.

★ **Review of School Safety Plans.** All school sites are required to have school safety plans. In an effort to ensure the efficacy of these plans, the May Revision provides $15 million to county offices of education and law enforcement personnel to review school safety plans and school sites and make recommendations to school districts with regard to what is necessary to implement their plan and create a safer learning environment in California schools.

★ **School Safety Infrastructure Grants.** The May Revision provides $42.5 million for safety related infrastructure, such as fences and metal detectors, for middle, junior, and high schools. Purchases would be made based on the review of school safety plans and school sites by law enforcement personnel.

Instructional Quality

★ **Teacher Performance Bonuses.** The May Revision includes $100 million for teacher performance bonuses to foster improved academic performance by students attending the State's lowest performing schools. In accordance with criteria established by the State Board of Education, bonuses will be awarded to teachers who work in schools that score below the 50th percentile on the achievement test administered pursuant to Education Code Section 60640 and who are successful at helping their students achieve improved test scores. Funds will be allocated annually by the State Department of Education to school districts that apply on behalf of eligible teachers.

★ **Instructional Materials: Three Core Textbooks.** The May Revision includes $144 million to help ensure that school districts provide pupils with sufficient, up-to-date instructional materials. This funding will augment the $176 million proposed in the Governor's Budget and the $500 million available for the purchase of standards-aligned instructional materials to provide a total of $820 million-an average of $140 per pupil. This level of funding will allow school districts to purchase standards-aligned textbooks for history/social science, mathematics, and language arts for all students.

★ **Parent Involvement.** Research has shown conclusively that parent involvement in children's education improves student achievement. The May Revision includes $40 million for school districts to establish and implement a program involving parents, teachers and pupils in the child's education. To be eligible for this program, schools must have a substantial number of their parents sign agreements that require parental participation in the following major areas: 1) emphasizing at home the importance of education and learning, 2) promoting communication about school programs and students' progress, 3) involving parents in instructional and support roles at the school, 4) providing parents with strategies and techniques to assist their children with learning activities, 5) preparing parents to actively participate in school decision making, and 6) providing parents with skills to access community and support services that strengthen school programs.

★ **College Preparation/Testing.** In an effort to increase college attendance and provide low-income students greater opportunities to compete for acceptance into colleges and universities, the May Revision includes $5 million in one-time funds to augment the following three college preparation programs: the Advanced Placement Fee Waiver Program, the College Preparation Partnership Program, and the International Baccalaureate Program.

★ **Federal Class Size Reduction.** The May Revision includes $129 million for the federal class size reduction program to reduce class sizes for grades 1 through 3. If schools have already reduced grades 1 through 3 class sizes to 20 students or less, schools can reduce class sizes for other grade levels and provide teacher training. To the maximum extent allowable by the federal program, the Governor strongly urges schools to reduce class sizes for grade 10 students.

★ **Double Funding for Arts Education.** The additional funding included in the May Revision doubles the resources available for arts education through the Visual and Performing Arts Education Grant Program. This $3 million augmentation will allow up to 100 additional school districts to establish or expand arts programs based on local priorities. Research has demonstrated that pupils who participate in arts coursework show increases in academic achievement.

★ **Digital High School Assistance.** The May Revision includes $1 million to allow the California Technology Assistance Project (CTAP) to assist high schools with the development of the digital high school plans and applications required to receive funding for the implementation of the digital high school program. Additionally, CTAP assists schools with other needs such as staff development, learning resources, hardware, and telecommunications infrastructure.

★ **Add 20 Partnership Academies.** Included in the May Revision is an additional $1.2 million which will provide for planning grants and first year implementation grants for 20 new partnership academies. The total cost in future years for these 20 academies is $1.6 million.

Funding Equity and Accountability

★ **Deferred Maintenance.** In an effort to continue to encourage school districts to devote more local resources to deferred maintenance needs, and to ensure the state's ability to fully fund the one-half of one percent state match provided for in statute, the May Revision includes a $143.7 million General Fund augmentation for the program.

★ **Fiscal Accountability.** The May Revision includes a package of proposals designed to increase the fiscal accountability of school districts. Due to a significant increase in ADA reported to the Department of Education by school districts in the current year over the amount projected in the Governor's Budget, the Department of Finance conducted a survey of a sample of school districts to determine the accuracy of the ADA being reported. The survey relied heavily on self-reporting by the involved districts. Based on the information collected during this survey, a more comprehensive audit of school attendance is warranted.

The May Revision proposes $3 million for the Department of Finance to contract with the State Controller's Office to perform additional audits of school attendance records. This level of funding will allow 67 percent of all ADA to be audited. Additionally, language will be included

in the education trailer bill to allow for correction in the calculation of Proposition 98 for errors identified in audit findings, to require that the school district revenue limit appropriation be adjusted for audit exceptions, and to establish an audit appeal process.

★ **School Business Office Staff Development.** The May Revision provides an additional $500,000 to the Fiscal Crisis Management Assistance Team, thereby doubling the amount for management training and business professional development for school district personnel and school site leadership teams and administrators in a variety of subject areas.

Preschool and Child Care

CalWORKs Child Care Caseload. The May Revision Stage 2 child care estimate for current CalWORKs families, including those receiving Transitional Child Care (TCC) through the Department of Education, is reduced by $122 million, reflecting lower overall caseloads and employment needs from the fall estimate. Due to changes in federal TANF regulations, it is further proposed that TANF Block Grant funding be directly transferred to the Department of Education to support the revised caseload. Stage I services provided by counties through allocations from the Department of Social Services (DSS) have increased as discussed in the Health and Human Services section.

Expansion of Subsidized Care for Other Working Families. The May Revision reflects a major new commitment of over $100 million for augmenting the Department of Education programs available to working poor families not receiving CalWORKs benefits:

★ **State Preschool Expansion.** The May Revision includes $23 million of Proposition 98 funding on a half-year basis to expand State preschool by almost 17,000 new enrollments. This is the first increment toward an Administration goal of serving 100,000 children in State preschool by 2000-01. State preschool is a high quality early childhood development experience which prepares disadvantaged children for early school success.

★ **Full-time Care for Working Families.** The May Revision provides $35 million to expand subsidized child care for post-TCC CalWORKs families and other low-income, working families. This is funded from $21.1 million of new federal Child Care and Development Block Grant (CCDBG) funding and $13.9 million of Proposition 98 General Fund. Consistent with DSS's estimated need, $17.5 million is dedicated for former CalWORKs families who have exceeded their two-year child care entitlement with an equal amount budgeted through alternative payment programs for other populations. The Administration proposes to assure equal access for both CalWORKs recipients and the working poor, subject to affordability.

★ **After School Programs.** The May Revision includes an additional $35 million from Proposition 98 to expand incentive grants for after school programs pursuant to legislation enacted last summer, with $25 million prioritized for middle school sites and at least $10 million allocated for elementary schools. Eligibility is focused on school sites with high concentrations of low-income students and provides literacy and homework assistance, while providing a convenient, no cost option for working parents of potential latchkey children.

★ **Child Care Facilities.** The May Revision increases transfers by $11.3 million to the Child Care Facilities Revolving Fund, bringing the total budget proposal for this program to $44.9 million. This increase recognizes the needs for both the proposed preschool expansion as well as the proposed $100 million center based pilot included in the January budget.

Child Nutrition. The May Revision also includes $75 million to expand federally funded school breakfasts and lunches for low-income students.

Higher Education

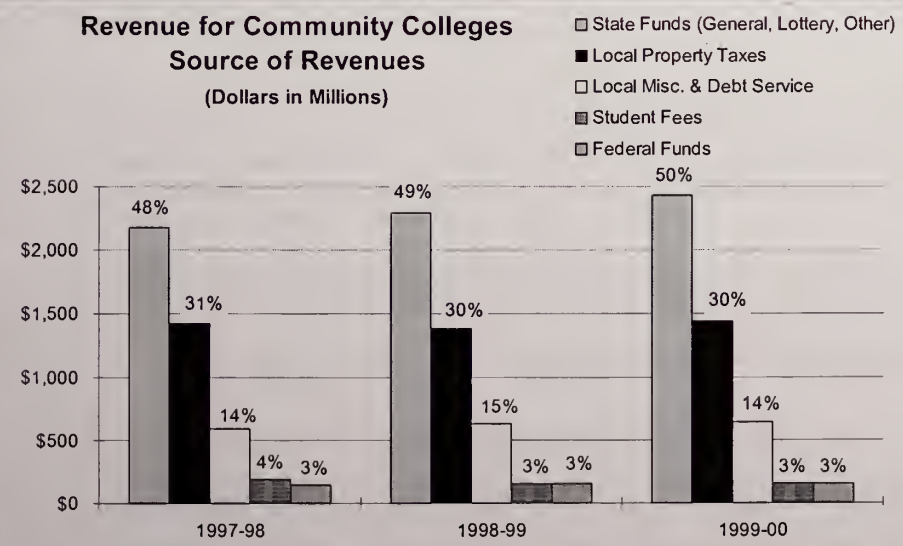
California Community Colleges

1998-99 -$30.1 million
1999-00 -$13.5 million

Current Year

The Governor's Budget included $9.8 million in savings due to increased property tax collections ($8.6 million) and revised estimates of lease purchase payments ($1.2 million). The May Revision includes an additional $30.1 million in savings due to increased property tax collections for total current year savings of $39.9 million.

FIGURE HIED-1



Budget Year

Overall revenues for Community Colleges are estimated at $5.2 billion in 1999-00, a $298 million increase over the estimate for 1998-99.

The May Revision reflects augmentations in Proposition 98 related fund sources of $18.4 million, with a net Proposition 98 General Fund decrease of $13.5 million from the Governor's Budget.

One percent Growth Increase for Transfer Courses. The May Revision proposes an increase of $32.5 million to reflect a one percent increase in growth over the Governor's Budget level. Total growth is 3.5 percent which exceeds the statutory level by about 1.5 percent. The additional growth funds are proposed to be prioritized by the colleges to augment pre-collegiate and core course offerings to stimulate additional transfers from the community colleges to four year colleges and universities.

One Dollar Student Fee Reduction. The May Revision proposes a net $12.9 million backfill of fee revenue from a one dollar reduction in the per unit fee for credit coursework.

Other Adjustments. The May Revision also includes a $44.2 million decrease to reflect an upward revision in the estimate of property taxes and a $14.4 million decrease to reflect a reduction in the COLA index from 1.83 percent to 1.41 percent (See Figure HIED-1).

University of California (UC)

1998-99	*No change*
1999-00	*$93.2 million*

The May Revision proposes an increase of $93.2 million to fund decreases in undergraduate and graduate student fees, increases in enrollment, restoration of reductions, applied research, and cooperative extension. This funding also includes a shift in administration of the California State Summer School for Math and Science, and planning funds related to the new Merced campus. Funding is proposed for the following significant changes:

★ $23 million to reduce undergraduate fees to $3,429, which is 10 percent below the 1997-98 level. With this decrease, fees will be at their lowest level since 1992-93.

★ $3.5 million is proposed to decrease graduate student fees by 5 percent, pursuant to Chapter 734, Statutes of 1998.

★ $39.6 million to restore reductions made in the January Budget.

★ $18.7 million is provided for 2,370 full-time equivalent students, which fully funds all enrollment.

★ $5 million to increase the Industry-University Cooperative Research Program. This augmentation brings state funding for this applied research program to $20 million, which will be matched by an equal amount of private sector funding.

- ★ $2 million to increase funding for Cooperative Extension, which provides applied research and other assistance to the agriculture industry.
- ★ $1 million is provided to shift the California State Summer School for Math and Science from the State Board of Education to the University.
- ★ $0.4 million for allocation to the County of Merced for local planning efforts related to development of the UC Merced campus.

California State University (CSU)

1998-99	*-$0.2 million*
1999-00	*$68.9 million*

Current Year

For 1998-99, the Budget is being reduced by $0.2 million to reflect savings in lease-purchase payments. These savings result from timing and financing revisions in the lease-purchase bond repayment schedules.

Budget Year

The May Revision proposes an increase of $68.9 million to fund decreases in undergraduate and graduate student fees, restoration of reductions, increased enrollment, outreach, applied agricultural research and planning funds related to the new Channel Islands campus. Funding is proposed for the following significant changes:

- ★ $20 million to decrease undergraduate fees to $1,428, which is 10 percent below the 1997-98 level. With this decrease, fees will be at their lowest level since 1992-93.
- ★ $4.2 million is proposed to decrease graduate student fees by 5 percent, pursuant to Chapter 734, Statutes of 1998.
- ★ $16 million to restore reductions made in the January Budget.
- ★ $14.9 million is provided for 2,710 full-time equivalent students, which fully funds all enrollment.
- ★ $9 million for outreach in 200 high schools to improve achievement in English and math and reduce the need for remediation among CSU freshmen. Funds are provided for faculty-to-faculty collaboration and learning assistance programs, including instruction and tutoring.
- ★ $4 million for applied agricultural research through the California Agricultural Technology Institute. This augmentation, along with the $1 million provided in the January Budget, brings total state funding for this program to $6 million. These funds are matched by at least an equal amount of funding from agricultural industry partners.
- ★ $0.8 million for executive staff to plan the new Channel Islands campus.

Student Aid Commission (SAC)

1998-99 *-$9.0 million*
1999-00 *No change*

Current Year

For 1998-99, the Budget is being reduced by $9 million, mostly due to savings in various student financial aid grant programs. A total of $8 million reflects a revised estimate of costs in the Cal Grant program, based on actual payment data. Additional savings of $0.3 million in the Cal Grant T program, $0.3 million in the work-study program and $0.2 million in the Assumption Program of Loans for Education are the result of first-year implementation delays in the expansion of these programs. Also, savings of $0.2 million General Fund is expected in state operations due to a redirection of staff from grant-related to loan-related activities.

Budget Year

The May Revision proposes no net change in funding for financial aid; however, redirection of program savings will allow for a $21.5 million expansion of the Cal Grant program. Funding is proposed for the following significant changes:

★ $21.5 million of budget year savings are proposed for redirection within SAC to augment the Cal Grant program. Baseline costs of the Cal Grant program will be $14.7 million less than assumed in the January Budget, and savings of $6.8 million will result from the 5 percent decrease in student fees at UC and CSU. These savings are proposed to provide $2.4 million for increasing the maximum award for students attending independent institutions per the statutory formula, and $19.1 million for 7,717 additional new Cal Grant awards. With the $5 million for new Cal Grants included in the January Budget, a total of $24.1 million will be provided for 9,389 new Cal Grants, an increase of 20 percent over 1998-99.

★ An additional 1,000 warrants are proposed for the Assumption Program of Loans for Education. Additional funds for the increased costs of the new warrants will not be necessary until 2000-01, because program participants must teach for one year before receiving program benefits.

INFRASTRUCTURE

INFRASTRUCTURE BANK

1999-00 $425 million

An augmentation of $425 million is proposed to increase the capitalization of the State Infrastructure and Economic Development Bank to $475 million. The Bank was created in 1994 to assist in developing the infrastructure and public improvements necessary to implement economic development throughout California. In a survey of local governments done in preparation of the Bank's operating policies, significant demand was shown for short-term bridge-type financing and for financing of "backbone" infrastructure. State government also has a backlog of capital outlay and other infrastructure projects.

The $425 million will be used to implement a leveraged revolving loan program that will (1) provide loan resources of nearly $2 billion; (2) offer low-cost, flexible financing to those projects with limited access to other funding sources; and (3) create a permanent and perpetual source of financing to meet the needs of California communities. State and local governments will be eligible for projects like drainage and flood control, parks and recreation facilities, upgrading of utilities, and streets and county highways that create jobs and fill a community economic need.

PRISON CONSTRUCTION

1999-00 $355 million

To address reaching full capacity in the State's prison system, the May Revision proposes to add $335 million General Fund to construct California State Prison-Kern County Delano II, a new maximum security prison, which when fully occupied will be capable of housing nearly 4,500 inmates. In addition, $20 million General Fund is proposed to begin the design of another new maximum security prison in San Diego County capable of housing the same number of inmates. Each prison will also include a 400-bed Level I support facility. Additional funds of $2.3 million are proposed for the Department of Corrections to hire staff to manage and administer the projects and plan for activation of the new prisons.

DEPARTMENT OF PARKS AND RECREATION

DEFERRED MAINTENANCE

1999-00 $157 million

Maintaining a healthy state park system infrastructure is pivotal to the protection of California's natural, historic, and cultural resources and the delivery of recreational services to Californians. To ensure a healthy State Park system for its 265 park units, the May Revision proposes $137 million to address the Department's $274 million deferred maintenance backlog as well as $10 million for other cultural resources and $10 million for natural resource heritage needs.

Department of Transportation

1999-00 $75 million

The May Revision proposes $75 million General Fund to acquire additional trains and ferries to increase passenger service on intercity and commuter rail lines and on public Bay Area ferry lines. Of this augmentation, $55 million is to acquire a total of five train sets for the State's three intercity rail corridors which will provide 2 additional round trips on the Capitols from San Jose to Roseville, one additional round trip on the San Joaquin from Bakersfield to Sacramento, and two additional LA-San Diego round trips on the San Diegans. For the Altamont Commuter Express, $14 million is included to purchase one locomotive and five coach cars. The May Revision also proposes $6 million towards the purchase of additional ferries to improve Bay Area passenger capacity on publicly operated ferry lines. Funding of passenger ferries would be provided through a competitive matching grant process.

Health and Human Services

May Revision requests of $294.2 million and the April Finance Letter requests of $18.4 million provide for a total increase of $312.6 million over the January Governor's Budget. Total General Fund expenditures proposed for Health and Human Services are now $16.5 billion.

Caseload in the California Work Opportunity and Responsibility to Kids (CalWORKs) and Medi-Cal programs continues to decline, while caseload is increasing in the Supplemental Security Income/ State Supplementary Payment and In-Home Supportive Services programs.

The May Revision also includes a $110.0 million General Fund reserve to be used for expansion of the Healthy Families Program, rate increases for Medi-Cal managed care providers, nursing home industry reforms, and wage increases for providers of In-Home Supportive Services. Proposals to expend these funds will be developed by the Administration in conjunction with interest groups and the Legislature. The May Revision also includes acceleration of the Department of Developmental Services four-year staffing plan to ensure continued certification of state developmental centers, and further expansion of the Adult Protective Services Program.

Department of Health Services

Medi-Cal

1998-99	*$76.1 million*
1999-00	*$184.8 million*

Current Year

The May Revision includes total Medi-Cal expenditures of $20.2 billion ($7.5 billion General Fund), an increase of $252.7 million over the January Governor's Budget. General Fund expenditures for Medi-Cal have increased by $76.1 million, or one percent for benefits and administrative costs.

The number of persons projected to be eligible for Medi-Cal in 1998-99 is expected to remain nearly flat, reflecting an increase of only 16,800 to 5,024,700 eligibles. This represents an increase of only 0.34 percent over the level projected in the January Budget. However, the revised caseload is still 0.74 percent below the 1997-98 caseload. Medi-Cal costs continue to rise as the cost per service and the rate of service use continue to increase.

The General Fund increase includes the following:

★ The Family PACT program (family planning services) will cost $32.1 million more than estimated in January.

★ The use of "Other Services," mainly for medical equipment and supplies, will exceed the January Budget by $31.9 million.

★ Rates for children's hospitals will increase by $9.0 million pursuant to a California Medical Assistance Commission negotiation.

★ A variety of other increases and decreases totaling $3.1 million.

Budget Year

The May Revision includes total Medi-Cal expenditures of $21.5 billion ($7.5 billion General Fund), an increase of $568.4 million ($184.8 million General Fund) over the January Governor's Budget.

The average monthly Medi-Cal caseload is expected to decrease by 123,000 eligible beneficiaries to 4,834,200 eligibles, a decrease of 2.48 percent from the January Budget. As noted above, slowed growth or decreases in the Medi-Cal population do not directly translate into budget savings as utilization rates for both the number and type of services are increasing.

The General Fund increase includes the following:

★ $61.7 million for the budget year costs associated with higher 1998-99 costs for family planning, "Other Services," and children's hospital payment rates.

★ $32.6 million in local mental health services.

★ $23.0 million for new drugs available to Medi-Cal beneficiaries.

★ $38.9 million for Medi-Cal costs for Department of Developmental Services clients.

★ $9.2 million for new vaccines.

★ A variety of other smaller increases and decreases totaling $19.4 million.

Public Health

1998-99	*-$ 6.6 million*
1999-00	*$12.4 million*

Current Year

AIDS Drug Assistance Program

The May Revision proposes decreased expenditure authority of $14.5 million General Fund due to lower than anticipated AIDS Drug Assistance Program (ADAP) demand and related health care costs. The lower cost per client is due, in part, to the deferred availability of new federally-approved drugs on the ADAP formulary.

Caseload Programs

The revised General Fund estimate for health screens in the Child Health and Disability Prevention (CHDP) program is lower than the January estimate by 11,660 screens and the average cost per screen will be lower, resulting in savings of $2.1 million. The Cigarette and Tobacco Products Surtax Fund (CTPSF) portion of this caseload will be 74,792 higher than earlier estimated with lower average costs per screen, generating a net increase of $1.8 million.

The revised estimate for total caseload in the CCS program is 1,226 cases lower than the January estimate. However, as a result of higher costs per case, there is a net General Fund increase of $3.8 million.

The revised estimate for total caseload in the GHPP is higher than earlier estimated. Caseload will decrease by 47 cases with higher average costs per case, for a General Fund cost increase of $6.2 million, which includes $4.0 million for payment of prior-year claims recently received for authorized services.

Budget Year

AIDS Education, Prevention, Care and Treatment Initiative

The May Revision reflects an increase of $9.2 million ($4.1 million General Fund) to expand AIDS education, prevention, care, and treatment services to high-risk populations. Specifically, the initiative provides $1.5 million to increase counseling and testing services for high-risk men, $1.9 million to expand access to intervention services (such as care and treatment), $2.0 million to augment evaluation and surveillance activities, $1.5 million to establish a high-risk youth prevention program, $1.3 million to increase services for at-risk ethnic communities, and $1.0 million to expand access to shelter services.

Caseload Programs

The revised estimate for General Fund-supported health screens in CHDP is lower than the January estimate by 5,892 screens and the average cost per screen is also lower. Therefore, savings of $3.6 million result. The CTPSF portion of this caseload will be 73,331 higher than the prior estimate with lower average costs per screen, generating an increase of $2.2 million.

The revised estimate for caseload in the CCS program is lower than the January estimate. Caseload will decrease by 721 cases with higher costs per case, for an increase of $6.4 million General Fund.

The revised expenditure estimate for the GHPP is higher than the January projection. Caseload will decrease by 65 cases with higher average costs per case, for an increase of $2.6 million General Fund.

CHDP Immunization Expansion Initiative

The May Revision includes $1.3 million ($0.8 million General Fund) to administer a new initiative to provide Hepatitis A and Rotavirus vaccines through CHDP, beginning January 1, 2000. The initiative intends to improve the health of children through increased prevention efforts.

Chlamydia Prevention Education Initiative

The May Revision provides $1.3 million General Fund for a new initiative to expand Chlamydia prevention education geared toward high-risk uninsured women and their partners. The community-based health education services would help prevent transmission of the sexually transmitted disease and related health complications, such as infertility and pelvic inflammatory disease.

California Health Interview Survey

The May Revision includes $2.0 million ($1.0 million General Fund) to conduct a California Health Interview Survey. The statewide survey, supported through a combination of state, federal, and private resources, will gather useful information on individual health status, risk behaviors, insurance coverage, and service utilization. The program will provide the State and counties with improved data for effective administration of health care services.

Cigarette and Tobacco Products Surtax Fund-Proposition 99

The May Revision reflects increased revenues of $15.0 million. These revenues are comprised of $3.0 million Health Education Account, $5.3 million Hospital Services Account, $1.5 million Physician Services Account, $750,000 Research Account, $750,000 Public Resources Account, and $3.8 million Unallocated Account.

The May Revision proposes to allocate these funds to:

- ★ Rescind previously proposed budget reductions of $5.4 million to health care programs in 1998-99 due to the prior decreased amount of resources estimated to be available as a result of reduced tobacco consumption.
- ★ Support caseload-related cost increases for CHDP ($1.8 million in 1998-99 and $2.8 million in 1999-00), Access for Infants and Mothers ($3.4 million in 1999-00), and Breast Cancer Early Detection Program services ($1.4 million).
- ★ Augment tobacco-related disease research and public resource services by approximately $1.5 million.
- ★ Expand health education activities by $2.9 million ($955,000 in the State Department of Education and $2.0 million in the Department of Health Services).
- ★ Statutorily required transfers from the Unallocated Account to the Habitat Conservation Fund ($375,000) and increased reserve requirements ($221,000) account for $596,000.

★ As a result of the expenditure requirements listed above and the availability of resources in designated accounts for services required under the initiative, prorated reductions of $4.8 million to remaining health care programs are proposed.

The net change in expenditures for health care programs in the Department of Health Services (DHS) by program area are shown below.

Current Year

An increase of $5.3 million is proposed as follows: Children's Hospitals ($32,000), Managed Care Counties ($75,000), County Medical Services Program ($315,000), California Healthcare for Indigents Program ($4.6 million), Rural Health Services Program ($43,000), Comprehensive Perinatal Outreach ($100,000), and State Administration ($123,000). Rural Health Grants in the Office of Statewide Health Planning and Development are also increased ($58,000).

Budget Year

An increase of $2.0 million is proposed as follows: Media Campaign ($669,000), Tobacco Education and Research Oversight Committee ($82,000), Competitive Grants ($604,000), and Local Lead Agencies ($595,000).

Reduced availability of resources in health care accounts also requires reduced expenditures as follows: $65,000 for State Administration, $344,000 for Clinic Grants, $81,000 for Comprehensive Perinatal Outreach, $25,000 for Children's Hospitals, $60,000 for Managed Care Counties, $255,000 for the County Medical Services Program, $3.8 million for the California Healthcare for Indigents Program, and $110,000 for Rural Health Services.

Although these reductions are needed to align expenditures with available resources, the Health and Human Services Agency (HHSA) will be exploring the possibility of obtaining a waiver to authorize federal matching funds for the Breast Cancer Early Detection and Access for Infants and Mothers programs. If increased federal funds become available, the Director of Finance would consider using any related CTPSF savings to increase program allocations as is allowed under current law. Moreover, the HHSA will also be reviewing options for increasing administrative flexibility for public and private health care providers, along with input from stakeholders, and continue to work with stakeholders on reevaluating priorities in light of declining CTPSF revenues.

Related budget adjustments are included in the University of California, Managed Risk Medical Insurance Board, and various Public Resource Agency department budgets.

Higher Breast Cancer Control Account revenues are also available to support $500,000 in increased Breast Cancer Early Detection Program screening costs.

Managed Risk Medical Insurance Board

1998-99	*-$3.3 million*
1999-00	*-$2.0 million*

Current Year

The May Revision includes a reduction of $3.3 million General Fund to reflect a caseload of 125,000 children anticipated to be enrolled in the Healthy Families Program (HFP) by June 30, 1999, down 13,000 children from the January projection of 138,000 children.

Budget Year

Healthy Families Program

Revised projections indicate that 250,000 children will be enrolled in the HFP by June 30, 2000, down 54,000 children from the January estimate. The Budget has been reduced by $5.2 million General Fund to reflect the revised enrollment. As proposed in January, Medi-Cal income deductions will be applied to 200 percent of the federal poverty level (FPL) when determining eligibility for HFP. The May Revision includes $2.0 million General Fund for the estimated 14,200 additional children who will be enrolled. Additionally, $0.9 million General Fund is included for costs associated with the revision of the HFP handbooks and the increased need for enrollment applications.

Further expansion of eligibility will be considered in the context of the $110.0 million General Fund Reserve.

Access for Infants and Mothers Program

The May Revision includes a total of $39.6 million from the Cigarette and Tobacco Products Surtax Fund, an increase of $3.4 million for this program. Total funding will serve an average of 360 new women per month. Additionally, $0.3 million General Fund is included to provide benefits for their children.

Health Insurance Plan of California (HIPC)

The Pacific Business Group on Health, a nonprofit corporation, will assume responsibility for HIPC on July 1, 1999, as required by Insurance Code Section 10748.5. As a result, the May Revision reflects elimination of the Voluntary Alliance Uniting Employers Fund (-$2.6 million), the existing funding source for the program.

Department of Developmental Services

1998-99	*$4.9 million*
1999-00	*$13.3 million*

Current Year

The May Revision includes an increase of $4.9 million General Fund to backfill the loss of federal funds resulting from the Health Care Financing Administration's decertification of the Agnews Developmental Center.

Budget Year

Developmental Centers

In 1999-00, population in the Developmental Centers is projected to be 196 clients above the 3,661 included in the Governor's Budget at a cost of $12.0 million ($20.9 million General Fund and -$8.9 million Reimbursements) and 194.0 positions. The increase in population, clients service needs, and adjustments to federal reimbursements resulting from developmental center certification status also require amendments to the second year of the four-year staffing augmentation plan which began in 1998-99. These amendments result in an increase of $0.5 million General Fund, a reduction of 5.6 positions and a decrease of $0.5 million in Reimbursements.

To meet the conditions necessary to recertify Agnews Developmental Center and to maintain certification in the other facilities, $2.3 million General Fund and $25.3 million Reimbursements are provided to accelerate the four-year staffing plan. These funds will provide consultants to assist with certification issues, accelerate the third-year staffing augmentation by a year (193.0 positions), and provide recruitment and retention bonuses for developmental center staff.

The Department of Developmental Services will enter into a 15-year lease for an 80-bed psychiatric facility in northern California to meet the increased need for a Behavior Adjustment Unit for clients at a cost of $8.4 million General Fund and 37.0 additional positions.

Regional Centers

The Regional Center (RC) population is projected to increase by 445 clients from the projection of 153,155 clients assumed in January, resulting in an increase of $8.4 million, (-$22.3 million General Fund). In addition to standard population adjustments, the estimate updates the number of regional centers which are projected to be recertified to receive federal funding under the Home and Community-Based Services Waiver, includes the Budget Act of 1998 rate increase for Early Periodic Screening, Diagnosis, and Treatment nursing staff, and includes a one-time expenditure of $1.5 million for Wellness Projects related to health, dental, and mental health issues for the developmentally disabled.

The May Revision also includes $3.6 million General Fund and $13.4 million Reimbursements to provide a three percent rate increase for community care facilities effective July 1, 1999, and to pass-through the Supplemental Security Income/State Supplementary Program (SSI/SSP) cost-of-living adjustments to these facilities.

Department of Rehabilitation

1998-99	*$6.1 million*
1999-00	*$9.6 million*

Current Year

The May Revision reflects a decrease of approximately 530 clients in the Work Activity and Supported Employment Programs. However, due to statutory changes to the supported employment services payment method, program costs are increasing by $6.1 million General Fund.

Budget Year

The May Revision reflects an increase in General Fund costs of $9.6 million mainly due to a combination of changes: a decrease of 150 clients in the Work Activity and Supported Employment Programs; cost increases of $8.6 million due to changes in the supported employment services payment method; and an increase of $0.9 million to replace federal funds that will not be received under the Home and Community-Based Services Waiver. The current rate structure statutorily sunsets on June 30, 1999. The Department of Rehabilitation is continuing to develop a new rate method which is equitable and cost-effective. However, this methodology will not be ready for 1999-00, thus, trailer bill language is proposed to extend the sunset date of the current rate structure to June 30, 2000. Additionally, the trailer bill language will require that rates paid for services provided remain within the authorized appropriation and that payments be prorated, if necessary, to meet this requirement.

Additionally, the May Revision includes five positions to further expand the provision of training and expertise to state departments requesting technical assistance in meeting the requirements of the Americans with Disabilities Act. These positions are provided on a reimbursable basis.

Department of Mental Health

1998-99	*-$0.9 million*
1999-00	*$8.2 million*

Current Year

The May Revision includes a reduction of $0.9 million General Fund to reflect a reappropriation of these funds into 1999-00 for the Brain Damaged Adults Program to continue the provision of services through the Caregiver Resource Centers.

Budget Year

The population in the state hospitals is projected to increase by 153 clients above the Governor's Budget estimated population of 4,198, at a net cost of $4.7 million ($9.2 million General Fund, -$4.5 million Reimbursements). This net increase is comprised of the following projected population

changes: (1) judicial and penal code commitments are increased by 164; (2) county-purchased Lanterman-Petris-Short beds are decreased by 50; (3) the sexually violent predator population is decreased by 31; and (4) the delay in transfer of the developmentally disabled clients from Napa State Hospital results in an increase of 70 clients.

The May Revision includes a net increase of $4.4 million (-$2.5 million General Fund, $6.9 million Reimbursements) for changes in mental health managed care. Adjustments for inpatient services include a reduction in the number of mental health managed care program eligibles and a reduction in the Consumer Price Index. Adjustments in specialty mental health professional services include a reduction in the number of eligibles, an increase for rate adjustments, and a technical adjustment for the San Mateo County Mental Health Managed Care Program.

Evaluation costs for Mentally Disordered Offenders is projected to increase by $0.6 million as a result of increased referrals by the California Department of Corrections. An estimated 220 evaluations per month are anticipated. This estimate is 89 evaluations per month above the January projection of 131 evaluations per month.

A General Fund reappropriation of an estimated $0.9 million is proposed for the Brain Damaged Adults Program to continue services through the Caregiver Resource Centers.

Office of Statewide Health Planning and Development

Rural Health Development Projects

The May Revision includes a one-time $2.0 million General Fund augmentation to provide rural health development grants for the purchase and replacement of diagnostic patient care equipment, remodeling of facilities, and Y2K computer compliance requirements ($1.8 million), and health care professional loan repayment grants ($0.2 million) which match funding from rural health providers to repay educational loans for health care professionals who serve for at least two years in federally defined health professional shortage areas.

Emergency Medical Services Authority

California Poison Control System

The May Revision includes $2.0 million General Fund to increase state support of the California Poison Control System which serves as a single statewide poison information provider with a toll-free number available to the public twenty-four hours a day, seven days a week. Statewide toll-free numbers are also available for health professionals, 9-1-1 operators, the speech and hearing impaired, and persons calling for health education information.

Department of Social Services

1998-99 *$1.6 million*
1999-00 *$101.0 million*

CalWORKs

The 1998-99 average monthly CalWORKs trend caseload of 646,000 (1,853,000 recipients), represents a decrease of 8.2 percent from 1997-98. For 1999-00, the trend caseload is expected to be 602,000 (1,663,000 recipients). Although this is a slight increase over the January projection of 598,000, caseload will still decline by 6.8 percent from the 1998-99 projection.

The May Revision continues to meet, but not exceed, the federally-required $2.9 billion combined state and county maintenance-of-effort (MOE) requirement. Total CalWORKs-related expenditures are estimated to be $7.3 billion for 1998-99 and for 1999-00, including child care transfer amounts for the Department of Education (CDE).

FIGURE HHS-1

1999-00 CalWORKs
(Dollars in Millions)

	January	May
Caseload	598,000	602,000
Total Federal, State and County	$7,297.4	$7,304.8
Temporary Assistance to Needy Families (TANF) Block Grant Available (including carry-forward)	$4,392.2	$4,500.5
Tribal TANF Transfer	$1.9	$3.6
TANF Block Grant Expenditures Within DSS	$3,828.0	$3,958.7
TANF Child Care Reserve	$183.0	$183.0
TANF Block Grant Expenditures, CDE Child Care	$379.3	$257.3
State Funds (inclusive of other agency maintenance-of-effort [MOE] spending)	$2,683.6	$2,723.0
County Funds	$223.5	$182.8
State-County MOE Requirement	$2,907.1	$2,905.8

Major changes proposed for 1998-99 include:

★ $60.1 million decrease in assistance payments due to caseload reductions.

★ $97.6 million loss of federal MOE qualifying child care expenditures within CDE appropriations. The accounting of MOE countable expenditures within CDE and the timing of federal MOE reporting do not correspond, thereby causing a loss of MOE countable expenditures which must be backfilled.

Major changes proposed for 1999-00 include:

★ $83.4 million increase in assistance payments to CalWORKs recipients, due to a cost-of-living (COLA) index increase and a slower decline in caseload. The total July 1999 COLA costs $102.6 million.

★ A shift from General Fund to the Federal Temporary Assistance for Needy Families (TANF) block grant in the Child Welfare Services-Emergency Assistance program is proposed to conform to the federal TANF regulations that are to become operative on October 1, 1999. The result of this fund shift will be a net loss of $32.9 million in MOE-qualifying expenditures in this program.

CalWORKs Child Care

The May Revision reflects an increase of $100.7 million to fund the estimated need for child care administered by DSS. The increased caseload is primarily for two-parent families who need this assistance to meet their work requirements. The CalWORKs-related child care administered by CDE is projected to be $122.0 million below the level assumed in January. This decline is due both to a revised estimate of caseload and a net shift from CDE-administered child care to DSS-administered child care. The May Revision proposes the direct use of TANF moneys for CDE as the final TANF regulations clarify that the time during which a family receives child care only will not count against their 60-month lifetime limit on aid. This change in child care funding should increase program administration flexibility.

Child Welfare Services

The May Revision reflects a General Fund decline of $99.3 million for 1999-00. This primarily reflects the usage of TANF in lieu of General Fund for the Child Welfare Services' Emergency Assistance program, in accordance with recently issued federal regulations that clarified the definition of MOE-eligible expenditures. The May Revision also reflects the impact of a projected 1.5 percent caseload growth and increased funding to provide expanded training to county staff using the Child Welfare Services/Case Management System. The May Revision also proposes to reappropriate the unexpended balance of the Specialized Training for Adoptive Parents program funding to continue support of that program.

Foster Care

Total program expenditures are below the level reflected in January by $15.5 million General Fund in the current year and by $28.7 million in the budget year. Total Foster Care caseload is projected at 89,300 children in 1998-99, and 88,300 children in 1999-00.

The May Revision reflects the usage of TANF in lieu of General Fund for Foster Care Emergency Assistance. The total cost decrease reflects a shift of approximately 6,000 children from more expensive group home placements to foster family home care. Other contributing factors include an increase in federally eligible expenditures and increased savings related to changes in Adoptions Initiative outcomes, an increased Family Preservation grant, and the implementation of the Supportive and Therapeutic Options Program.

Child Support Automation

A $24.3 million General Fund increase is proposed for 1998-99 to backfill the loss of federal funding that had been budgeted for child support automation. This amount includes $2.9 million for the Health and Welfare Agency Data Center and $21.4 million for costs incurred by the counties. Project funding for child support automation, independent of this fund shift, is proposed to decline from the Governor's Budget amount by $6.5 million ($2.0 million General Fund) for 1998-99 and increase by $22.5 million ($2.0 million General Fund) in 1999-00. The cumulative $89.9 million in federal penalties concerning child support automation now is projected to fall within 1999-00.

Supplemental Security Income/State Supplementary Payment (SSI/SSP) Program

The May Revision includes an additional $25.0 million General Fund to provide a 2.36 percent COLA for SSI/SSP recipients, based on the California Necessities Index and reflects total expenditures of $2.2 billion General Fund in 1998-99 and $2.5 billion General Fund in 1999-00. Caseload for the SSI/SSP Program is projected at 1,036,000 recipients in 1998-99, and 1,063,000 recipients in 1999-00.

Total program expenditures are below the level reflected in January by $11.5 million General Fund in the current year and above that level by $33.8 million in the budget year. Total program expenditures include costs for the Cash Assistance Program for Immigrants (CAPI). Higher than expected caseload for the CAPI will result in a $7.8 million General Fund increase in the current year and a $22.3 million increase in the budget year. Caseload for the CAPI is projected at 1,900 recipients in 1998-99, and 5,400 recipients in 1999-00.

In-Home Supportive Services (IHSS) Program

Expenditures for the IHSS program are above the level reflected in January by $3.1 million General Fund in the current year and below the Budget estimate by $31.9 million General Fund in the budget year. Caseload is projected to be 217,000 recipients in 1998-99 and 229,000 recipients in 1999-00.

Total program expenditures for 1999-00 include $18.8 million General Fund to implement the *Tyler v. Anderson* settlement which requires that payments be made to IHSS recipients formerly denied specified services. Other funding changes include $1.1 million General Fund for the state share-of-cost for public authority administrative expenditures, an increase of $56.4 million in federal Title XX funds to offset General Fund costs by the same amount, and projected 5.4 percent caseload growth compared to the 3.3 percent included in the Governor's Budget.

Adult Protective Services Program

The May Revision includes an increase of $11.3 million ($10.0 million General Fund) for the Adult Protective Services Program. Since 1997-98, funding provided through the County Services Block Grant for this program will have been augmented by $65.7 million ($45.3 million General Fund) bringing total estimated federal, state, and county spending to $92.5 million ($56.2 million General Fund). These augmentations will assist counties to enhance their programs to protect elderly and dependent adults who are victims of abuse, neglect, or exploitation. Services may include a 24-hour emergency response system, emergency shelter, in-home protective care, food, and transportation. Provisional language is proposed for counties to report program and cost data necessary to determine future program requirements.

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PUBLIC SAFETY

Department of Justice

1998-99 *No Change*
1999-00 *$6.4 million*

SKS Rifle Buy-Back Program

An increase of $1.2 million General Fund is included to implement an SKS rifle buy-back program pursuant to Chapter 909, Statutes of 1998.

Palm Print Automation

An increase of $3.5 million from the Fingerprint Fee Account is proposed to implement an automated palm print system which will enable the Department to conduct automated searches of the palm print database as an additional investigative tool, and to enhance the State's criminal history system.

Expansion of Charitable Trusts Section

An augmentation of $1.0 million General Fund is proposed to enhance the Department's ability to address workload in the Charitable Trusts Section, which is responsible for oversight and enforcement of over 80,000 California charities.

Staffing Increase for Antitrust Section

An additional $677,000 General Fund is included to ensure that the department has the resources necessary to address an increasing workload in the Antitrust Section, which is responsible for ensuring an open and competitive marketplace for the benefit of California's consumers and businesses.

Office of the Inspector General

1998-99 *No Change*
1999-00 *$3.6 million*

The Office of the Inspector General (OIG) was established in 1994 within the Youth and Adult Correctional Agency. However, Chapters 969 and 338, Statutes of 1998 changed and expanded the role of the Inspector General and re-established the office as an independent entity reporting directly to the Governor. The OIG reviews and conducts investigations to ensure integrity in investigations conducted by departments, boards, and authorities within the Youth and Adult Correctional Agency. The Inspector General also conducts audits of investigative practices as well as management audits of institution wardens and superintendents. In order to accomplish these objectives, an increase of $3.6 million is proposed to reflect revised workload estimates and increased executive, administrative, and support staffing.

Department of Corrections

Inmate/Parolee Population/Caseload Changes

1998-99 -$23.0 million
1999-00 -$48.3 million

Current Year

Based upon the Department of Corrections' (CDC) spring estimates, the May Revision reflects an estimated June 30, 1999 population of 161,840 inmates. This amount is 2,579 fewer inmates than projected in the 1999-00 Governor's Budget, and results in savings of approximately $16.0 million. The revised population estimate represents an increase of 3,633 inmates (2.3 percent) over the June 30, 1998 population level.

The projected June 30, 1999 parolee population is 114,255. This is a decrease of 319 parolees over the 1999-00 Governor's Budget. The revised population estimate and related program changes result in a net decrease of approximately $7.0 million. The revised population estimate represents an increase of 5,505 parolees (5.1 percent) over the June 30, 1998 level.

The net effect of the changes listed above is a General Fund savings of approximately $23.0 million.

Budget Year

The CDC's spring estimates reflect a June 30, 2000 population of 167,294 inmates, 3,611 inmates fewer than projected in the 1999-00 Governor's Budget. This decrease and related program changes result in savings of approximately $46.2 million. The revised inmate population estimate reflects an increase of 5,454 (3.4 percent) over the revised June 30, 1999 population estimate.

The spring population estimate for parolees as of June 30, 2000 is 118,091 which is 2,425 fewer parolees than projected in the 1999-00 Governor's Budget. This decrease and related-program changes result in net savings of approximately $2.1 million. The parolee population level projected for the budget year is an increase of 3,836 (3.4 percent) over the revised population estimate for June 30, 1999.

The net effect of the changes listed above is a General Fund savings of approximately $48.3 million.

Local Assistance

1998-99 $24.6 million
1999-00 $11.1 million

An augmentation of $24.6 million General Fund in the current year is proposed to allow CDC to reimburse counties for the costs of detaining parole violators in local jails pending parole revocation hearings. Additionally, an ongoing augmentation of $11.1 million General Fund is included in the budget year to address an anticipated increase in the level of local reimbursement claims.

Current Year and Budget Year Structural Adjustments

1998-99 *$70.8 million*
1999-00 *$77.0 million*

An augmentation in the amount of $70.8 million General Fund is included in the current year to cover an estimated state operations shortfall. This shortfall is primarily attributable to health care costs, increased staff costs as a result of filling additional positions and posts to enhance staff and inmate security and safety, driven in part by implementation of the Memorandum of Understanding (MOU), as well as increased costs of legal settlements and judgments ($1.6 million).

In the budget year, $77.0 million General Fund is likewise included for increased staffing costs related to program implementation of the MOU, the need for increased secruity, and increased costs ($13.3 million) for legal settlements and judgments.

Memorandum of Understanding Staffing Impact

1998-99 *No Change*
1999-00 *$2.3 million*

An increase of $2.3 million General Fund is proposed in 1999-00 to implement unanticipated costs associated with the training requirement under the provisions of the current (MOU) between the State and Bargaining Unit 6.

Expansion of the Cadet Academy and Other Training

1998-99 *No Change*
1999-00 *No Change*

The $5.0 million General Fund included in the Governor's Budget for the purpose of enhancing training at CDC will be used to increase training for correctional officer cadets from 6 weeks to 10 weeks. These funds will also be used to develop a training program for Sergeants and Lieutenants and, upon completion of the Department's Year 2000 remediation efforts, will introduce decision-making simulators and upgraded personal computers for the training program.

Enhanced Training for Armed Positions and Implementation of a Water Restraint System

1998-99 *No Change*
1999-00 *$6.9 million*

An additional $6.9 million General Fund in the budget year is proposed to provide additional training for all correctional officers assigned to armed posts, and to purchase 60 Water Restraint Systems to be installed in all Security Housing Units and Administrative Segregation Units.

Special Prosecution Support

1998-99 *No Change*
1999-00 *$.5 million*

An augmentation of $472,000 is proposed to create a Special Prosecution Support Unit within the Office of Internal Affairs (OIA) to address the needs of prosecutorial agencies in the investigation and prosecution of CDC staff who engage in criminal acts during the performance of their duties.

Deadly Force Investigation Team

1998-99 *No Change*
1999-00 *$.5 million*

An increase of $472,000 is proposed to create a Deadly Force Investigation Team within the Office of Internal Affairs to conduct investigations of the use of deadly force and officer involved shooting incidents by departmental employees.

Contract Medical Funding

1998-99 *No Change*
1999-00 *$27.4 million*

An augmentation of $27.4 million General Fund is proposed to address increasing medical costs for surgery, hospitalization, outpatient specialty services, laboratory services, and registry services. Additional funding for 1998-99 is included above under structural adjustments.

Medical and Psychiatric Supplies

1998-99 *No Change*
1999-00 *$19.5 million*

An increase of $19.5 million General Fund is proposed for increased costs for medical and psychiatric supplies (largely pharmaceuticals) to provide mandated medical treatment. These increased costs are largely attributed to increased utilization of new psychiatric medications to serve the growing mentally disordered inmate population and specialty medications for HIV infected inmates. Additional funding for 1998-99 is included above under structural adjustments.

Clark Interim Agreement and Stipulation

1998-99 *No Change*
1999-00 *$1.8 million*

CDC has entered into an interim agreement and stipulation with the plaintiffs in the *Clark, et al., v. The State of California* lawsuit regarding services for developmentally disabled inmates. The 1999-00 Governor's Budget included $5.5 million General Fund to meet the requirements of the interim

agreement . An additional $1.8 million General Fund is included in the May Revision for screening, security, clinical support, and law library assistance for those inmates identified as developmentally disabled.

Board of Corrections

Violent Offender Incarceration/Truth-in-Sentencing (VOI/TIS) Federal Fiscal Year (FFY) 1999 Grant Funds

1998-99 *No Change*
1999-00 *$75.0 million*

An augmentation of $75.0 million is proposed to reflect the FFY 1999 federal VOI/TIS Grant Program funds that the State anticipates receiving during the 1999-00 state fiscal year. These funds will be allocated by the Board of Corrections to local governments on a competitive basis to build or expand both adult and juvenile detention facilities, consistent with the provisions of Chapter 339, Statutes of 1998.

Department of the Youth Authority

Population Adjustments

General Fund

1998-99 *-$1.3 million*
1999-00 *-$2.4 million*

For 1998-99, the May Revision estimate for the year-end institution population is 7,630, a decrease of 95 from the projection included in the Governor's Budget. This population decrease results in a General Fund savings of $1.5 million. For parolees, the Youth Authority projects a year-end parole population of 5,205, or an increase of 105 from the projection included in the Governor's Budget, which results in an additional cost of $195,000, offsetting the savings noted above.

For 1999-00, the year-end institution population is projected to be 7,355, which is 155 fewer than anticipated in the Governor's Budget and results in a General Fund savings of $2.4 million. For parolees, the Youth Authority projects a year-end population of 5,125, or an increase of 65 from the projection included in the Governor's Budget. Due to a shift in the type of caseload supervised, this increase will result in minor additional costs.

Sliding Scale Reimbursements

1998-99 *$1.0 million*
1999-00 *$1.4 million*

The Youth Authority estimates reimbursements from local agencies which sent wards to the Youth Authority, totaling $47.6 million for the current year and $52.9 million for the budget year. These estimates are higher than the projections included in the Governor's Budget because more wards are projected to enter the Youth Authority under the terms of the "sliding scale". The net effect of these population changes is an increase of $1.0 million reimbursements in the current year and an increase of $1.4 million reimbursements in the budget year.

Heman G. Stark Intensive Treatment Program

1998-99 *No Change*
1999-00 *$1.1 million*

The Youth Authority currently operates five Intensive Treatment Programs (ITPs) in five institutions—Northern Reception Center, Southern Reception Center, N.A. Chaderjian, Ventura, and Preston—to provide psychological and psychiatric treatment services to the most seriously mentally disordered wards. To expand the mental health services, the Youth Authority proposes to convert an existing general population unit to a 46-bed ITP at the Heman G. Stark Youth Correctional Facility at a cost of $1.1 million General Fund.

Board of Prison Terms

Mentally Disordered Offenders

1998-99 *No Change*
1999-00 *$2.0 million*

In order to provide due process prior to requiring mental health treatment as a condition of parole, the Board of Prison Terms is required to conduct evaluations and provide hearings for prisoners who meet specified criteria. An increase of $2.0 million General Fund is included to conduct these hearings and evaluations.

Office of Criminal Justice Planning

1998-99	*No Change*
1999-00	*$68.2 million*

Elder Abuse Vertical Prosecution

An augmentation of $2.0 million General Fund is proposed to establish a statewide Elder Abuse Vertical Prosecution (EAVP) Program. These resources will be used to assist local district attorneys in prosecuting crimes against the elderly using the vertical prosecution method. Utilization of a federal Byrne Grant baseline augmentation of $259,000 is also proposed to provide two additional grants under the EAVP, and to establish one position to address workload increases in the Byrne Grant program.

Local Law Enforcement Grants

An augmentation of $61.0 million General Fund is proposed to provide one-time grants to local law enforcement agencies. These funds will be allocated according to criteria developed by OCJP to address the priority needs of local law enforcement agencies.

Drug Abuse Resistance Education Program

An increase of $1.0 million General Fund is proposed to expand the Drug Abuse Resistance Education (DARE) program that teaches school-age children about the dangers of drugs, as well as how to recognize and resist pressures to experiment with alcohol and drugs.

Rural Crime Prevention Program

An augmentation of $3.5 million General Fund is proposed to continue the Rural Crime Prevention Program (RCPP) in Fresno, Kern, Kings, Madera, and Tulare counties, and to expand the program to Merced, San Joaquin, and Stanislaus counties. The RCPP provides resources for specified counties to enhance the prosecution of rural crimes and increase prevention efforts in the San Joaquin Valley.

Central Valley Methamphetamine Task Force

$300,000 is proposed to provide administrative support for the coordination of methamphetamine abatement efforts in the Central Valley. These funds will provide administrative support to local agencies to assist them in accessing federal High Intensity Drug Trafficking Area (HIDTA) funds.

School Safety Task Force

An augmentation of $100,000 is proposed to establish a multi-disciplinary School Safety Task Force, to focus on ways to improve school safety in the aftermath of the Littleton, Colorado school shooting incident.

California Highway Patrol

1998-99 *No Change*
1999-00 *$0.4 million*

An augmentation of $423,000 is proposed to extend the El Protector Program, on a pilot basis, to additional communities with a high proportion of non-English speaking drivers. The program provides traffic safety education through non-English language media and by a variety of public presentations by bilingual CHP staff.

JUDICIAL BRANCH

JUDICIARY

1998-99	*No Change*
1999-00	*$4.0 million*

Twelve New Justices for the Courts of Appeal. The May Revision proposes $3.0 million to provide quarter-year funding for 12 new justices for the Courts of Appeal, including staff, equipment, and salary and benefit costs. The annual cost in subsequent fiscal years would be approximately $12.0 million. Between 1992-93 and 1996-97, appellate case filings increased by 10 percent. Projecting appellate workload at the same average rate of growth through 1999-00 supports an additional 12 appellate justices.

Operating Expenses and Equipment for the Appellate Courts. The May Revision proposes $0.5 million for a permanent increase in operating expenses and equipment for the Supreme Court and the Courts of Appeal. This increase approximates $5,000 per appellate justice, and is to cover training, library costs, and other operational and equipment costs of those courts.

Centers for Complex Litigation. The May Revision proposes $0.3 million for the Administrative Office of the Courts (AOC) to support six Centers for Complex Litigation that will be established as pilot programs in five urban counties. The Centers are to provide prompt, cost-effective and fair disposition of complex business, tort and labor disputes. The AOC staff will provide coordination, and staff training, and will contract for an evaluation of the program. Full-year costs will be $0.6 million.

Alternative Dispute Resolution (ADR) Pilot Programs. The May Revision proposes $0.2 million for the AOC to administer four pilot programs for Alternative Dispute Resolution, two in rural areas and two in urban areas. These funds are to provide for coordination and staff training and to contract for an evaluation of the program. Full-year costs for the AOC will be $0.4 million.

TRIAL COURTS

1998-99	*-$1.0 million*
1999-00	*$103.9 million*

County Trial Court Maintenance of Effort (MOE) Requirements. Chapter 1017, Statutes of 1998, provided approximately $96.5 million in relief to counties through Trial Court Funding. Chapter 1017 required that the State assume the court operation costs of 18 counties, in addition to the 20 smallest counties previously provided such financial relief, and provided a 10 percent reduction in MOE requirements for the remaining 20 counties.

The May Revision proposes $48.3 million to reverse an earlier proposal that would have reduced the Chapter 1017 county MOE relief by approximately 50 percent. A conforming, technical action is necessary to reduce Trial Court Funding by $2.5 million, because the counties which would now receive full MOE relief under the May Revision proposal will not be eligible for the mitigation relief provided in Chapter 1017.

Increase the Modernization Fund. The May Revision proposes that the Judicial Efficiency Administration and Modernization Fund be increased by $25.2 million. Initial-year funding will be used to provide technology remediation and support for the trial courts as follows:

★ $19.1 million to address Year 2000 corrections to trial court computer systems.

★ $4.0 million to provide for trial court perimeter security needs.

★ $0.9 million, half-year funding, to provide grants to trial courts for six Centers for Complex Litigation as pilot programs in five urban counties. These Centers are to provide prompt, cost-effective and fair disposition of complex business, tort, and labor disputes.

★ $1.2 million, half-year funding, to establish four pilot project programs for alternative dispute resolution, two in urban areas and two in rural areas. These programs could involve either arbitration or mediation.

Negotiated Salary Increases. The Governor's Budget included $20.0 million to address negotiated salary increases (NSIs) in the trial courts for 1999-00. Additionally, the May Revision proposes funding of $21.3 million in 1999-00 to address NSIs agreed upon by the trial courts and their respective counties in 1998-99.

Transition to Certified Court Reporters. The May Revision proposes $8.0 million to continue the replacement of electronic reporting units with certified court reporters. A 1996 appellate court ruling on this issue ordered the Judicial Council and the trial courts not to spend state funds on electronic recording. The total cost of this change is approximately $11.4 million. The AOC is diverting $3.4 million from the Trial Court Improvement Fund to offset a portion of this cost, leaving a remaining need of $8.0 million.

Twenty New Trial Court Judgeships. The May Revision proposes approximately $2.6 million to provide quarter-year funding for 20 new trial court judgeships. This cost is for the salary and benefits of the new judges and support staff and expenses directly related to creation of each new judgeship. The annualized cost of this proposal will be approximately $10.2 million in subsequent fiscal years.

Family Law Court Interpreters. The May Revision proposes the reappropriation of $1.0 million that was included in the Budget Act of 1998 for a pilot project assigning trial court interpreters to domestic violence and family law cases, as authorized by Chapter 981, Statutes of 1998. However, the funds cannot be encumbered by the trial courts in 1998-99, because Chapter 981 established July 1, 1999, as the implementation date.

DEPARTMENT OF TRANSPORTATION

1998-99 *No Change*
1999-00 *$529.9 million*

The adoption of the federal Transportation Equity Act of the 21st Century (TEA-21) and revisions to the 1998 State Transportation Improvement Program (STIP) Fund Estimate have provided an additional $1.76 billion for transportation projects in California beyond the $4.6 billion that was previously anticipated for the six-year plan. This provides a substantial challenge and opportunity to Caltrans and local transportation agencies to deliver such a large increase in projects in a timely manner. The following augmentations are proposed to provide resources to Caltrans to meet its project delivery responsibilities and assist local transportation agencies in completing local projects:

★ A net increase of $72.9 million from special funds and federal funds for Caltrans' capital outlay support and administrative support programs to deliver additional projects in the 1998 revised STIP.

★ An increase of $10.8 million from special funds and federal funds to handle the anticipated workload increase for state oversight and reporting on new local highway and mass transit projects and an augmentation of $302 million for subventions to local agencies for new transportation projects. This request reflects 1999-00 estimated expenditures for locally nominated STIP projects which are off the state highway system, as well as federal TEA-21 funds which flow through Caltrans' budget to local transportation agencies for local road projects which are not programmed through the STIP.

★ A total of $75 million in onetime funding from the General Fund for additional passenger carrying equipment for the State's three intercity rail lines, the Altamont Commuter Express and Bay Area ferry services (see Infrastructure section).

★ An augmentation of $22 million for intercity rail capital outlay. In addition, an increase of $1.1 million is proposed from the Public Transportation Account to fund cost increases for existing passenger service in the contract with Amtrak ($625,000) and to continue the 11th train initiated by Amtrak in the current year on the San Diego intercity rail corridor ($470,000).

★ An increase of $28.5 million in federal funds and special funds to support several longer-range transportation planning studies. Among the various projects, this request includes an increase of $1.3 million in federal funds to be matched by approximately $500,000 in funding from the Southern California Association of Governments for the High Speed Rail Authority to study the feasibility of magnetic levitation train service between Riverside County and the Los Angeles International Airport.

★ An increase of $2.3 million to expedite project delivery by providing Caltrans with the funds to contract for the exclusive use of staff resources in regulatory departments that perform mandatory reviews of compliance with environmental laws. The proposal will accelerate the environmental review process on transportation projects.

★ An increase of $11.6 million to provide training and technical assistance to local transportation agency staff in an effort to help local agencies deliver federally funded transportation projects faster.

★ An increase of $3 million in special funds for Caltrans to implement a pilot project to improve public awareness of highway work zone safety through (1) development of a multimedia campaign, and (2) by re-engineering the process by which the public is notified of road closures or delays due to work.

Resources & the Environment

Department of Forestry and Fire Protection

Trees for the Millennium

1998-99 *No Change*
1999-00 *$2.1 million*

In announcing the "Trees for the Millennium" Initiative, the Governor said that "Urban forests lead to better air quality, cleaner waterways, and more wildlife." To implement this initiative, $2.1 million is proposed for a matching grant program available to schools, cities, and other public entities to encourage the planting of trees in urban settings throughout the State.

Watershed and Salmon Restoration Strategy

1998-99 *No Change*
1999-00 *$2.6 million*

Funding is provided for an initiative to improve assessment and planning efforts in coastal watersheds by integrating the activities of different state agencies, assisting local governments with watershed restoration efforts, and working with regional stakeholder groups. The goal of the initiative is to restore coastal salmon and steelhead trout in California and to take a proactive approach to mitigate the need for further listing of endangered species in Southern California watersheds.

Department of Fish and Game

Ocean Waters Management Program

1998-99 *No Change*
1999-00 *$2.2 million*

The May Revision includes funding to begin implementation of the Marine Life Management Act, created by Chapter 1052, Statutes of 1998. The Act seeks to manage the State's sport and commercial marine resources through fishery management plans.

California Coastal Commission

Coastal Public Access

1998-99 *No Change*
1999-00 *$0.1 million*

The May Revision includes $80,000 to the Commission to process offers-to-dedicate public access easements before the terms of the easements expire, thereby providing opportunities to secure access to the coast before they are lost.

Local Coastal Program (LCP) Completion

1998-99 *No Change*
1999-00 *$0.2 million*

The Commission's 1999-00 January 10 Budget provides $500,000 for grants to help local entities complete their LCPs. To administer the Commission's grant program and provide technical assistance to grant recipients in preparing certifiable LCPs, the May Revision provides $240,000 to the Commission.

State Coastal Conservancy

Southern California Wetlands Clearinghouse Program

1998-99 *No Change*
1999-00 *$5.7 million*

This program is designed to restore the remaining 41 coastal wetlands in Southern California through a cooperative effort between state, federal, and local public entities. Private nonprofit agencies also contribute to purchases and restoration through this program. The May Revision proposes $5.7 million, the same amount as budgeted in 1998-99, to continue this grant program.

Department of Water Resources

Integrated Storage Investigations

1998-00 *No Change*
1999-00 *$10.0 million*

The May Revision includes $10 million to study the feasibility of integrated water storage projects north of the Sacramento-San Joaquin Delta and to begin the CalFed integrated storage investigations. Of this amount, $4.5 million would be used to complete the investigation of the Sites Reservoir, with the remaining amount to be used to develop an overall water storage strategy for the State.

Local Flood Control Subventions Program

1998-99 *No Change*
1999-00 *$44.0 million*

Existing law provides for cost sharing between state and local entities of the nonfederal share of federally authorized local agency flood control projects, which are also state authorized. An augmentation of $44 million in onetime funds is proposed to fund a portion of the State's share of costs. Legislation will also be proposed to clarify the State's liability for flood control projects that have already been authorized by the State.

Safety of Dams Program

1998-99 *No Change*
1999-00 *$0.5 million*

To ensure the safety of dams, the Department proposes $483,000 to meet workload needs as a result of inspection backlogs, and growth in the number of new dams and dams for which responsibility has been shifted to the Department.

Resources Agency and CalEPA

Increase Enforcement of Timber Harvesting Operations in the North Coast

1998-99 *No Change*
1999-00 *$7.6 million*

With the signing of the Headwaters agreement, the Governor directed the Secretary for Resources to increase enforcement of timber harvesting activities in the North Coast. Under the direction of the Resources Agency, the four departments involved with oversight of timber harvest plan operations have jointly developed a $7.6 million proposal that would increase enforcement of the State's laws that impact timber harvesting in the North Coast. The proposed resources will also provide oversight of the Pacific Lumber Company habitat conservation plan agreement and sustained yield plans.

California Environmental Protection Agency

ISO 14000 Pilot Project

1998-99 *No Change*
1999-00 *$0.7 million*

ISO 14000 is a set of voluntary standards and guidelines to help businesses and organizations incorporate sound environmental management systems into their operations. The May Revision proposes $654,000 General Fund for the Secretary for Environmental Protection and various boards and departments within the California Environmental Protection Agency to implement pilot programs to determine if ISO 14000 improves environmental performance at a lower cost than existing regulations.

Air Resources Board

Fuel Cell Demonstration Program

1998-99 *No Change*
1999-00 *$2.7 million*

Fuel cells are devices that produce electricity from hydrogen and oxygen without harmful emissions. The May Revision proposes $2.7 million Petroleum Violation Escrow Account to promote this promising emission reduction technology. The Air Resources Board will assist local transit agencies to purchase buses powered by fuel cells.

Air Resources Board/Office of Environmental Health Hazard Assessment (OEHHA)

Evaluation of Environmental Risks to Children

1998-99 *No Change*
1999-00 *$2.7 million*

Because of their physiological characteristics, children and infants are more susceptible to air pollutants than the general population. The May Revision proposes $468,000 General Fund for OEHHA to study existing risk assessment methods to ensure that they adequately protect children and infants from air pollutants, and $2.2 million General Fund for the Air Resources Board to conduct an in-depth evaluation of school children in the Fresno area to determine how specific air pollutants affect asthma.

California Integrated Waste Management Board

Tire Remediation and Abatement Program

1998-99 *No Change*
1999-00 *$5.0 million*

A recent executive order directed the California Integrated Waste Management Board to maximize the use of reserves in the California Tire Recycling Management Fund to clean up waste tire stockpiles and take enforcement actions against illegal stockpiling of waste tires. The May Revision proposes $5.0 million California Tire Recycling Management Fund to implement this executive order and stimulate markets for waste tire reuse.

State Water Resources Control Board/ Department of Pesticide Regulation

Total Maximum Daily Load Development

1998-99 *No Change*
1999-00 *$6.0 million*

The Governor's Budget proposed $6.0 million federal funds for the State Water Resources Control Board to develop numeric pollutant limits or Total Maximum Daily Loads (TMDLs) for seriously impaired water bodies. The May Revision proposes an additional $3.9 million General Fund for the Board because court orders have accelerated the deadlines for TMDL development. In addition, $639,000 General Fund and $1.5 million Pesticide Regulation Fund are proposed for the Department of Pesticide Regulation to assist in developing TMDLs for pesticide-related pollutants.

State Water Resources Control Board/Office of Environmental Health Hazard Assessment (OEHHA)

Methyl Tertiary Butyl Ether (MTBE)

1998-99 *No Change*
1999-00 *$2.8 million*

A recent executive order required the State Water Resources Control Board and OEHHA to perform various activities associated with the phaseout of MTBE, a fuel additive which presents significant environmental risks from surface and groundwater contamination. The May Revision proposes $707,000 General Fund, $1.0 million Underground Storage Tank Fund, and $252,000 Harbors and Watercraft Revolving Fund for the Water Board and $841,000 General Fund for OEHHA to implement the MTBE executive order.

Petroleum Violation Escrow Account (PVEA)

General Fund Repayment to PVEA

1998-99 *No Change*
1999-00 *$27.0 million*

In September 1996, the Department of Finance conducted a financial audit of the PVEA and found that interest had not been properly accrued to the account. As a result, the General Fund owes the PVEA $31 million by June 30, 1999. Because $4 million General Fund was already included in the January 10 Budget, $27 million General Fund would be necessary to fully repay the PVEA. The May Revision proposes to complete that repayment obligation. Concurrently, the Administration proposes

to spend this funding for various transportation efficiency and energy savings projects administered by the California Energy Commission ($6.5 million), the Air Resources Board ($2.7 million), the Department of Community Services and Development ($10.8 million) and the California Community Colleges ($10.0 million).

Tidelands Oil Revenues

Tidelands Oil Revenues Program Reforms

1998-99 *No Change*
1999-00 *$11.5 million*

Because of late receipt of cash into the fund, significant revenue declines, and an unpredictable revenue stream, all of which put long-term programs dependent on tidelands oil revenues in serious jeopardy on an annual basis, it is proposed that all tidelands oil revenues be deposited in the General Fund, and that those programs that were intended to be funded from tidelands oil revenues in the 1999-00 Budget now be funded directly from the General Fund. This proposal would provide to the following departments funding that would otherwise not be available from tidelands oil revenues: (1) Department of Housing and Community Development—Emergency Housing Assistance ($1.3 million); and (2) Department of Fish and Game—Marine Life and Marine Reserve Account ($2.2 million) and Salmon and Steelhead Restoration Grants ($8.0 million). Conforming legislation will be proposed to implement the reforms to the tidelands oil revenues program.

General Government

Department of Veterans Affairs

1998-99 *No Change*
1999-00 *$2.0 million*

The May Revision continues the Administration's commitment to veterans by enhancing the services provided to residents of the California Veterans Homes.

★ An augmentation of $355,000 is provided to convert a Barstow Home domiciliary unit into a Residential Care Facility for the Elderly (RCFE). This will provide a new level of care not previously available at the Barstow Home for residents who need a higher level of care and assistance than offered at the domiciliary level.

★ An increase of $518,000 is included to fully staff the existing Yountville RCFE so that the services of this facility can be expanded to meet the needs of Yountville Home residents.

★ An augmentation of $1.1 million General Fund is provided to establish the Therapeutic Residential Helper Programs at Yountville and Barstow. These Programs will provide Home residents with the opportunity to participate in a therapeutic employment program which will enhance the quality of life for the member participants, as well as provide the Home and its residents with services and activities that may not otherwise be provided. This augmentation will also allow the Program to meet the requirements of the Federal Fair Labor Standards Act.

★ For the Chula Vista Home, 8.5 positions to perform various pre-activation duties to ensure the successful opening of this Home are proposed. Savings related to revised occupancy rates allow for the funding of these onetime positions.

Department of Industrial Relations

1998-99 *No Change*
1999-00 *$4.4 million*

Division of Occupational Safety and Health Inspectors

An augmentation of $2.9 ($1.2 million General Fund, $537,000 Federal Fund, and $1.2 million Special Fund) and 52.5 positions is proposed in order to perform additional Cal-OSHA safety inspections to protect both workers and the public in California.

Workers' Compensation Insurance Audits and Civil Penalties

$718,000 ($574,000 General Fund and $144,000 Workers' Compensation Administration Revolving Fund) and 9.0 positions is proposed for the Audit Unit of the Division of Workers' Compensation to increase the number of audits conducted on workers' compensation insurance claims, and to increase the number of civil penalties assessed against workers' compensation insurers or employers who fail to handle claims in the manner prescribed by statute and regulation.

Division of Workers' Compensation Claims Adjudication Workload

$1.1 million ($877,000 General Fund and $219,000 Workers' Compensation Administration Revolving Fund) is included to fund 13.0 positions on a two-year limited term basis in order to continue to address backlogs in the time between the filing of a workers' compensation claim and settlement conferences and hearings.

Industrial Welfare Commission

An additional $227,000 General Fund is proposed to fund the first of two years of onetime costs incurred by the Industrial Welfare Commission to develop Wage Orders to reform overtime policy and reestablish the eight-hour workday standard.

Division of Labor Standards Enforcement (DLSE) Administrative Hearings

$438,000 General Fund and 4.5 positions is included for the DLSE to provide administrative hearings for contractors and subcontractors to contest Notices to Withhold (Notice) issued on public works contracts. Notices are DLSE's primary enforcement tool to ensure payment of the prevailing wage.

Uninsured Employers' Fund Legal Unit Staffing

A $2.0 million reduction in the General Fund contribution to the Uninsured Employers' Fund (UEF) program, offset by a $1.0 million augmentation from the UEF, is proposed on a two-year limited term basis to reflect decreased claims payments and anticipated increased UEF recoveries. This proposal also includes the permanent continuation of a successful pilot project by establishing 3.0 positions (funded by a redirection of $261,000 UEF) to preserve the UEF's rights to collect revenues in state and federal court cases involving workers' compensation insurance, employee leasing, and bankruptcy.

Department of Insurance (DOI)

Holocaust Victims and Unpaid Insurance Claims

1998-99 *No Change*
1999-00 *$4.7 million*

The Administration is committed to do everything possible to seek justice for Holocaust victims, survivors, and their families. A number of insurance companies which sold insurance policies in Europe during the time of the Holocaust now have operations in California. However, many of these companies have not provided the victims of the Holocaust proper restitution for prior insurance claims.

To ensure that beneficiaries of insurance policies of Holocaust victims are appropriately compensated by insurers, the May Revision proposes $4.7 million Insurance Fund, as well as a redirection of $348,000 Insurance Fund from within the DOI's existing budget, and the reappropriation of any unexpended balance from the $4.0 million appropriated by Chapter 963, Statutes of 1998, for the DOI to continue investigating and resolving insurance claims resulting from the Holocaust.

The Administration also proposes establishing an Oversight Committee to review and make recommendations on the allocation of funds being used by the DOI to research Holocaust era insurance claims. The Oversight Committee will ensure that the resources provided to the DOI will be used in the most effective manner possible and that any settlement is equitable for the victims and beneficiaries.

Department of Information Technology

1998-99 *No Change*
1999-00 *$19.5 million*

The May Revision includes an increase of $19.5 million General Fund for technology enhancement and support services, and for addressing Year 2000 issues. This amount includes the following adjustments:

★ An increase of $17.5 million is included to establish an Events Management Center, to serve as a control and testing facility for Year 2000 readiness of mission-critical mainframe computer systems currently housed at the Teale Data Center and the Health and Welfare Data Center.

★ The creation of 16.0 positions is proposed through a redirection of existing contract consulting funds to establish a Year 2000 Project Office to oversee the Year 2000 remediation activities.

★ An augmentation of $1.3 million is also included to establish 9.0 Agency Information Officer positions, which will be responsible for coordinating information technology throughout state agencies and departments.

Board of Control

Victim Services and Restitution

1998-99 *No Change*
1999-00 *$1.3 million*

The May Revision includes a $1,332,000 Restitution Fund augmentation for the Board of Control (BOC) to support the establishment of a statewide comprehensive restitution program incorporating activities at both the state and local level. Included in this proposal is $358,000 to fund 6.0 positions at the Department of Corrections and $195,000 to fund 3.0 positions at the Department of the Youth Authority to expand their collection efforts. The balance of the funding will provide 12.0 additional

positions at the BOC to support collection efforts and expand its Criminal Restitution Compact program with local District Attorneys from 19 to 26 counties. Additional funding for the Franchise Tax Board activities will be funded by the existing collections assessment of 15 percent.

Office of Emergency Services (OES)

1998-99 *$5.3 million*
1999-00 *$9.6 million*

The following General Fund increases are included in 1998-99 and 1999-00 to provide OES with the resources necessary to prepare for potential Year 2000 emergency situations.

★ An additional $2.4 million in 1998-99 and $7.1 million in 1999-00 is proposed for inspection of businesses which handle hazardous materials. The purpose of the inspections is to protect Californians from the accidental release of hazardous substances caused by computer malfunctions.

★ An augmentation of $2.4 million in 1998-99 and $2.5 million in 1999-00 is proposed to enhance the capability and reliability of OES' satellite communications system (OASIS) which provides a backup method of communication between local emergency response agencies and OES in case of failure of the public phone system.

★ An increase of $489,000 is proposed in 1998-99 for radio communications equipment which will replace older equipment, thereby providing a more reliable means of communication in emergency response situations and backup in case of failure of the OASIS system.

Department of General Services

Janitorial Services

1998-99 *No change*
1999-00 *$1.5 million*

The May Revision includes a net increase of $1,471,000 Service Revolving Fund to cover the costs associated with the conversion of janitorial services, in buildings for which the Department of General Services (DGS) provides janitorial services, to permanent full-time civil service personnel. Currently, DGS provides these services by contracting with the private sector or by utilizing permanent intermittent staff who are not paid benefits. The estimated increase in building rents to clients in these buildings is approximately $4.0 million annually.

Department of Food and Agriculture

Red Imported Fire Ants

1998-99	*$6.9 million*
1999-00	*$8.8 million*

In March 1999, the Department received approval for a deficiency authorization in the amount of $6.9 million General Fund to determine the extent of, as well as to eradicate, several pest infestations. This amount includes $3.1 million for activities related to Red Imported Fire Ants (RIFA). The May Revision proposes an additional $8.8 million as the first of five years' funding to deal with the RIFA problem through public outreach, pest detection/eradication, and quarantine programs.

Secretary of State

Bipartisan Commission on Political Reform

1998-99	*No Change*
1999-00	*$0.2 million*

The Bipartisan Commission on Political Reform was established pursuant to Chapter 1080, Statutes of 1998, to investigate and assess the effect of the Political Reform Act of 1974 on various specified aspects of politics and report its findings and recommendations to the Legislature. The May Revision reflects a onetime General Fund increase of $155,000 which, combined with the $55,000 already included in the Governor's Budget, will allow the Commission to accomplish its purpose.

Trade and Commerce Agency

1998-99	*No Change*
1999-00	*$3.8 million*

Other funding to enhance the state's economic health includes: 1) $1.6 million to match a $2.0 million federal grant and $1.6 million in local funds to provide Year 2000 assistance for small to medium-sized manufacturers, (2) an increase of $2 million for the California Technology Investment Program which matches federal and private sector funds for development of new products, (3) $238,000 to support CinemaScout, a web-enabled digitized image database to assist in scouting for film locations within California, and (4) $200,000 to fund the activities of the California Economic Strategy Panel, which is charged with producing an economic development strategic plan for the state every other year.

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Statewide Issues

The Year 2000 Challenge for California

1998-99	*$35.0 million*
1999-00	*$44.3 million*

Current Year

The May Revision proposes to augment the current year appropriation by $35 million General Fund. These funds will be available for allocation as needed for century change.

Budget Year

The May Revision includes $64.3 million ($44.3 million General Fund) to be allocated by the Department of Finance in support of century change activities. Of this amount, $14.3 million General Fund will be made available to the Department of Information Technology to fund the Year 2000 oversight activities started in 1998-99. It is again proposed that the Director of Finance have authority to authorize expenditures in excess of the amount appropriated in the Item.

The May Revision also proposes to add Control Section 11.10 which places restrictions on departments commencing new information technology projects pending the Department of Information Technology's completion of an independent Year 2000 Detailed Department Assessment of the departments' Year 2000 readiness.

Employee Compensation

1998-99	*$24.1 million*
1999-00	*Set Aside*

In 1998-99, the Administration successfully negotiated agreements with the 16 state employee bargaining units which did not have contracts as of January 1999. These contracts generally provide a 5.5 percent salary increase effective April 1, 1999. These salary increases will result in 1998-99 costs of $28.4 million General Fund and $113.6 million General Fund annually thereafter.

Employee compensation continues to be a priority of the Administration and negotiations currently are underway with all 21 bargaining units for contracts which would be effective July 1, 1999. A reserve of $300 million General Fund is set aside for employee compensation and litigation settlements.

State Retirement Contributions

1998-99	*No Change*
1999-00	*-$121.8 million*

The May revision reflects a General Fund decrease from the Governor's Budget of $121.8 million in 1999-00:

State Teachers' Retirement System (STRS). General Fund contributions to STRS for retirement benefits will increase by $2.8 million in 1999-00 (from $933.7 million to $936.5 million). This is due to a higher-than predicted increase in actual teacher payroll which is the basis for the statutory formula.

Judges Retirement System (JRS). General Fund contributions to JRS II will increase by $0.2 million in 1999-00 due to the addition of 12 Appellate and 20 Superior Court judges.

Public Employees' Retirement System (CalPERS). Due to favorable economic factors and revised economic assumptions adopted by CalPERS in March 1998, CalPERS' June 30, 1998, actuarial valuation of the retirement system shows the State's 1999-00 obligation for retirement contributions is estimated to decrease by $166.4 million General Fund ($302.5 million total funds) from the Governor's Budget. As the General Fund payment to CalPERS is made on a quarterly basis, one quarter in arrears, only three quarters or $124.8 million General Fund ($260.9 million total funds) of the full year General Fund savings will be realized in 1999-00.

Mandate Appropriations for Local Governments

1998-99	*No Change*
1999-00	*$97.2*

The State Controller's Office has reported that the claims they received from local governments (cities, counties, special districts) for reimbursement of state-mandated local costs exceeded the appropriations by $36.7 million. In addition, in the last twelve months the Commission on State Mandates has determined that three additional statutes which affect these local governments qualify for reimbursement as state mandates and has approved $54.8 million for that purpose. Finally, because the enactment of the 1998 Budget Act was some 40 days after July 1, the mandates proposed for suspension in that Act for the entire fiscal year were instead in effect during that period. The estimated cost of reimbursing local governments for costs incurred in that 40-day period is $5.0 million.

The May Revision proposes the creation of a set aside in the aggregate of these amounts, or $96.5 million plus $0.7 million for interest accruing from April 1, 1999 through June 30, 1999. The 1999 mandates claims bill (AB 1110) will be the funding mechanism for these appropriations. Information regarding mandate appropriations for school districts can be found in the "Education" section of this report.

General Obligation Bonds & Commercial Paper Debt Service

1998-99 *-$34.2 million*
1999-00 *-$29.6 million*

The Governor's Budget anticipated current year General Obligation (G.O.) bond debt service expenditures of approximately $1.9 billion, and budget year expenditures of approximately $2.1 billion.

Due to lower-than-expected bond sales in the Spring of 1999, lower interest rates for the actual sales, and less Commercial Paper being issued due to lower cash flow needs, there will be savings of $34.2 million in the current year and $29.6 million in the budget year. The combined General Fund savings will be $63.8 million.

Payment Of Interest On General Fund Loans

1998-99 *-$19.2 million*
1999-00 *-$10.1 million*

For 1998-99, the Governor's Budget anticipated the internal borrowing interest cost to be $20.0 million General Fund. This interest cost is now estimated to be approximately $10.0 million, or a savings of $10.0 million. This is based on actual disbursements of $6.2 million through April 28th and anticipated costs through the end of the fiscal year. The external borrowing interest cost was anticipated at $51.0 million General Fund. Since the Revenue Anticipation Notes (RANs) were sold at a premium, the net cost was reduced by $9.2 million to $41.8 million. The total 1998-99 General Fund savings will be $19.2 million.

For 1999-00, the May Revision estimates are preliminary because the cash flow projection process cannot be completed in time for the May 14 statutory deadline. The updated cash flow and related interest cost will be available several days after the formal release of the May Revision.

In the Governor's Budget, the 1999-00 interest cost on internal borrowing was anticipated to be $35.0 million General Fund. This cost is now anticipated to be approximately $34.1 million, or a savings of $0.9 million. For external borrowing, the Governor's Budget estimated the sale of RANs in the amount of $2.5 billion with an interest rate of four percent for 12 months for a total cost of $100.9 million General Fund. We are now estimating a savings of $9.2 million to reflect the interest cost for only 11 months for which the RANs are projected to be outstanding. The total 1999-00 General Fund savings will be $10.1 million. Again, the 1999-00 RANs' sizing is based on the Governor's Budget cash flow projection. Final determination of the RANs' size will be based on the cash flow projection at Budget enactment, rather than the May Revision or the Governor's Budget.

1999-00 State Appropriations Limit Calculation

Pursuant to Article XIIIB of the California Constitution, the 1999-00 State Appropriations Limit (SAL) is estimated to be at $50.687 billion. The revised limit is the result of applying the growth factor of 6.34 percent. The revised 1999-00 limit is $635 million above the $50.052 billion estimated in January. This increase is due to changes in the following factors:

	January Percentage	May Revision Percentage
Per Capita Personal Income	3.39	4.53
State Civilian Population	1.73	1.66
K-14 Average Daily Attendance	1.56	1.82

The SAL for 1998-99 does not change since it was statutorily determined by Section 12.00 of the 1998 Budget Act.

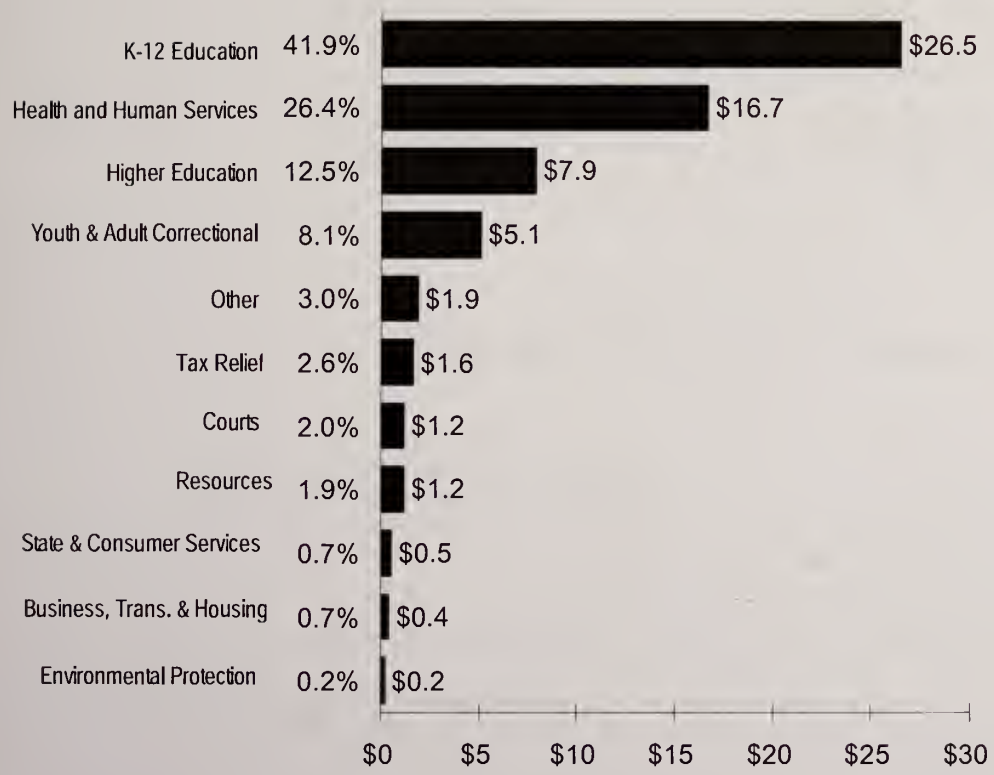
1999-00 General Fund Budget Summary
(Dollars in Millions)

	1998-99	1999-00
Prior Year Balance	$3,065	$2,361
Revenues and Transfers	$57,927	$62,985
Total Resources Available	**$60,992**	**$65,346**
Expenditures	$58,631	$63,223
Fund Balance	**$2,361**	**$2,123**
Budget Reserves:		
Reserve for Liquidation of Encumbrances	$480	$480
Special Fund for Economic Uncertainties	1,881	985
Set Asides:		
VLF Reduction in 2000-01	--	248
Employee Compensation and Litigation	--	300
Health and In-Home Services	--	110

General Fund Expenditures by Agency
(Dollars in Millions)

	1998-99	1999-00
Legislative, Judicial, Executive	$1,892	$2,176
State and Consumer Services	448	454
Business, Transportation & Housing	298	441
Trade and Commerce	109	479
Resources	1,224	1,186
Environmental Protection	177	156
Health and Human Services	16,332	16,710
Youth and Adult Correctional	4,552	5,088
K-12 Education	23,807	26,462
Higher Education	7,428	7,877
General Government	2,364	2,194
Total	**$58,631**	**$63,223**

1999-00 General Fund Expenditures (Dollars in Billions)


K-12 Education 41.9% $26.5
Health and Human Services 26.4% $16.7
Higher Education 12.5% $7.9
Youth & Adult Correctional 8.1% $5.1
Other 3.0% $1.9
Tax Relief 2.6% $1.6
Courts 2.0% $1.2
Resources 1.9% $1.2
State & Consumer Services 0.7% $0.5
Business, Trans. & Housing 0.7% $0.4
Environmental Protection 0.2% $0.2
$0 $5 $10 $15 $20 $25 $30

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Budget Program Areas

Revenue Forecasting; Economic Projections; Demographic Research; Business, Transportation and Housing; Trade and Commerce	Shelley Mateo	322-2263
Education	Kathryn Gaither	445-0328
Health and Welfare; Local Government	Stan Cubanski	445-6423
Youth and Adult Correctional; Justice; General Government; State and Consumer Services	Calvin Smith	445-8913
Resources, Environment, Energy; Capital Outlay	Fred Klass	324-0043
Employee Relations; Retirement Systems	Robert Straight	327-0201
Budget Planning and Preparation; Cash Management; Statewide Issues	Carl Rogers	445-5332

California's Budget on the Internet

This document is also available on the Internet at the California Department of Finance website:
http://www.dof.ca.gov

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